"Fiscal 1997 was a year of positive milestones *for Genesco.* Net earnings, pretax earnings *and* operating income *for the year all were* the highest *in seven years. The* enthusiasm *both* internally *and* externally *has been* electrifying."

Financial Highlights

Genesco Inc. and Consolidated Subsidiaries

	1997	1996	Percent Change
FOR THE YEAR:			
Net sales	**$461,348,000**	$434,575,000	6%
Net sales – ongoing operations	**$461,348,000**	$403,816,000	14%
Earnings (loss) before discontinued operations	**$ 17,104,000**	$ (4,281,000)	–
Net earnings	**$ 17,104,000**	$ 10,071,000	70%
Earnings (loss) per common share before discontinued operations	**$ .66**	$ (.19)	–
Net earnings per share	**$ .66**	$ .40	65%
AT YEAR END:			
Working capital	**$115,495,000**	$108,135,000	7%
Long-term debt	**$ 75,000,000**	$ 75,000,000	0%
Shareholders' equity	**$ 60,490,000**	$ 33,905,000	78%
Shares outstanding	**24,706,000**	24,356,000	1%
Book value per share	**$ 2.09**	$ 1.04	
Approximate number of common shareholders of record	**11,000**	12,000	

The Business of Genesco

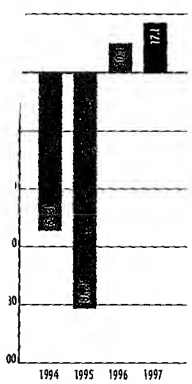
Founded in 1924 in Nashville, Tenn., Genesco Inc. manufactures, sources, markets and distributes branded shoes and boots. The Company's owned and licensed footwear brands sold through both wholesale and retail channels of distribution, include Johnston & Murphy, Dockers and Nautica shoes and Laredo, Code West and Larry Mahan boots.

Genesco sells footwear at wholesale to more than 4,000 retailers, including a number of leading department, discount and specialty stores and at retail through the Company's own network of 504 retail shoe stores, including Johnston & Murphy, Jarman, Journeys, General Shoe Warehouse and Boot Factory stores, and leased shoe departments. Genesco products are supplied from the Company's own manufacturing facilities as well as a variety of overseas and domestic sources.

Table of Contents

Financial Highlights	Inside Front Cover
Chairman's Message	1
Chief Executive Officer's Message	3
Genesco's Retail Network Map	4
Management's Discussion and Analysis of Financial Condition and Results of Operations	5
Financial Summary	15
Management's Responsibility for Financial Statements	16
Report of Independent Accountants	16
Consolidated Balance Sheet	17
Consolidated Earnings	18
Consolidated Cash Flows	19
Consolidated Shareholders' Equity	20
Notes to Consolidated Financial Statements	21
Board of Directors and Corporate Officers	47
Corporate Information	48
Genesco: The Name Behind the Brands	Inside Back Cover

Fiscal 1997 was a year of positive milestones for Genesco. Net earnings, pretax earnings and operating income for the year all were the highest in seven years. Our stock price reached a three year high of 11 in December 1996 and most recently a 24 year record high of 12 1/4 in April of this year. The enthusiasm both internally and externally has been electrifying. To quote a recent *Investor's Business Daily* article, "Genesco Inc. has regained its financial footing." Probably most significantly, for the first time in longer than anyone can remember, the board tapped a home grown product of Genesco's operational management to lead the Company as chief executive officer.



To highlight our financial results, Fiscal 1997 pretax earnings from ongoing operations increased 84% to $18.5 million from $10.1 million in Fiscal 1996. Sales from ongoing operations rose 14% to $461.3 million compared to $403.8 million a year ago. Net earnings for Fiscal 1997, including a charge of $1.7 million related to a realignment of our manufacturing operations, totaled $17.1 million, or $0.66 per share, up 70% from $10.1 million, or $0.40 per share, in Fiscal 1996.

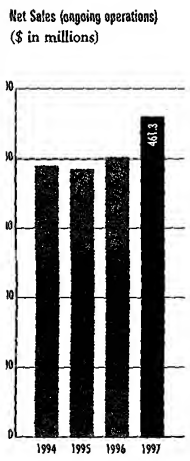
Our retail operations – Jarman, Journeys, Johnston & Murphy, Boot Factory, General Shoe Warehouse and Johnston & Murphy Factory Stores – posted an impressive 12% increase in same store sales for the year. The Journeys division alone recorded a 26% increase in same store sales over Fiscal 1996.

Journeys is one of the most exciting things to come out of Genesco in a long time. The chain, which is targeted to consumers aged 13 to 22, unveiled a new store concept in Boulder, Colorado, in July. By the year's end we had opened 20 new concept stores. The new store emphasizes energy and interactivity, with music videos and even a working telephone booth for customers to call their friends and patents. To quote a recent *Wall Street Journal* comment on Journeys, "...Journeys is pulling adolescents out of the mall into the store with secret bait: the telephone." Of course, as Journeys' management always reminds me, the real key to the chain's success is the same as any other successful retailer – having the right product for the customer. In Journeys' case, this means having a broad selection of "must have" teen brands, like Dr. Martens, Simple, Airwalk and 26 Red. The retail division has also begun working on assembling the systems, processes and people to support an aggressive growth plan. We want to be able to add a net of approximately 50 stores in each of the next few years.

The same solid merchandising skills that account for Journeys' success also form the basis for our other retail success stories. Johnston & Murphy retail shops, many of which are sporting an updated, eclectic store design, carry a wide selection of footwear, predominantly our own Johnston & Murphy brand and a few other leading dress, dress casual and casual brands for the male consumer primarily targeted to ages 25 to 54. The J&M retail stores have changed in three years from a promotional retail environment into a store focused on getting its merchandise mix tight for its customer. In fact, since 1994, J&M retail has increased its casual and contemporary footwear mixes more than 45%.

Jarman stores, offering branded casual footwear for men primarily targeted to ages 25 to 45, continue to perform well in the middle-priced footwear market, thanks to an emphasis on product and customer service. Jarman leased departments carry the same emphasis to the men's footwear consumers in their host department store chain. Our Boot Factory chain, which has struggled in a chronically soft western boot market, is also focusing on the value of merchandising, broadening its product offering with visible results. General Shoe Warehouse, our small chain of branded outlets, is also focusing on its product offering and freshening the concept, while Johnston & Murphy Factory Stores continue to perform well in the high-end outlet market.

Our stable of wholesale brands experienced another year of improvement, with a 10.7% increase in sales from ongoing operations. Our branded businesses support the theory that, at wholesale, as well as in retail, product is everything. We have focused on product design and development, with the lifestyles of our customers at the center of our attention. This focus has yielded the freshest lines in years and, the boot business aside, growth in wholesale sales and profits.



The Nautica Footwear division led the wholesale group in sales growth by percentage, nearly-doubling the size of its business in Fiscal 1997. While Nautica Footwear is still a relatively small business, there is a lot of excitement in the division. Recently, we introduced the Nautica Competition athletic footwear line in conjunction with Nautica International's launch of Nautica Competition athletic apparel. The initial introduction has gone well, and the Nautica Competition footwear can be found in most Foot Locker stores across the United States. We will introduce our second generation athletic footwear in the summer of 1997, shipping on the heels of Nautica Competition's signing Glen Rice, the 1997 NBA All-Star Game's MVP and forward for the Charlotte Hornets, as the official endorser of all Nautica Competition apparel and footwear. The development of the Nautica Competition line takes the division a step further in its quest to supply the full range of footwear for its target customers' lifestyle.

Johnston & Murphy shoes continued to gain wholesale market share, and a look at the Johnston & Murphy catalogue explains why. Without abandoning its heritage as a leading supplier of classic welted dress shoes in the English-American tradition, Johnston & Murphy has broadened its lines to include Italian-made contemporary dress and dress casual shoes and even casual products to address the needs of its target customer's changing lifestyle.

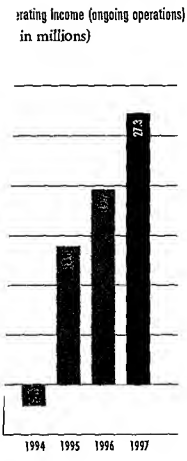
Our Dockers Footwear division continued to post solid improvements year over year. In Fiscal 1997, Dockers Footwear rolled out a major fixturing program, including the new maple wood tables and display fixtures in more than 1,000 retailers across the U.S. This allowed Dockers Footwear to increase its presence and product depth within these national retail chains. We were especially proud last May when Dockers Footwear was rated the favorite brand in the men's casual footwear category in a national consumer survey conducted by the leading footwear trade publication, *Footwear News*.

The Volunteer Leather division enjoyed another year of solid performance as the leading supplier of leather to U.S. military footwear manufacturers. At the same time, the division began to take steps to increase its presence in the commercial leather market.

Our Laredo western boot division continues to be our greatest challenge. I am proud of the way the people in this division have worked so hard to improve their product and market share during three back-to-back years of a softening market. We are continuing to look for ways to adjust our boot operations to be profitable in this market. To this end, in October 1996, we announced the closing of a boot plant. We believe that our lines are well positioned to take advantage of any upturn in the western boot market.

As part of the Company's succession plan announced last year, Ben T. Harris became Genesco's new president and chief executive officer on February 1, 1997. He was also elected a director of the Company. Ben's appointment was greeted with as much enthusiasm within the Company as I can remember for an announcement of this kind. As a long-time manager from one of our operating companies said, "Ben is one of us!" He is a 30-year veteran of the Company with a resume that bespeaks tremendous innate abilities that have carried him through literally every level of management. Ben joined Genesco as a manager of a Jarman leased department in Bowling Green, Kentucky.

About 17 years ago, he was tapped to head the entire Jarman leased division. In 1991 he became president of the Jarman Shoe Company. He and his team changed the merchandising philosophy of that division and turned it around. Most recently, Ben served as executive vice president of operations and president of Genesco's retail businesses, where he was the impetus of the strategy behind the current growth of our Journeys division. Ben's obviously extraordinary ability as a manager is undoubtedly the reason for the excitement in the Company. I am optimistic about the Company's future under Ben's leadership.



There is a lot of excitement about Genesco. We continue to build on the potential evidenced in the numbers reported on the following pages. We exceeded our internal targets for Fiscal 1997 and have begun this year with positive momentum. We look forward to Fiscal 1998 and the opportunity to build on our success.

David M. Chamberlain
Chairman

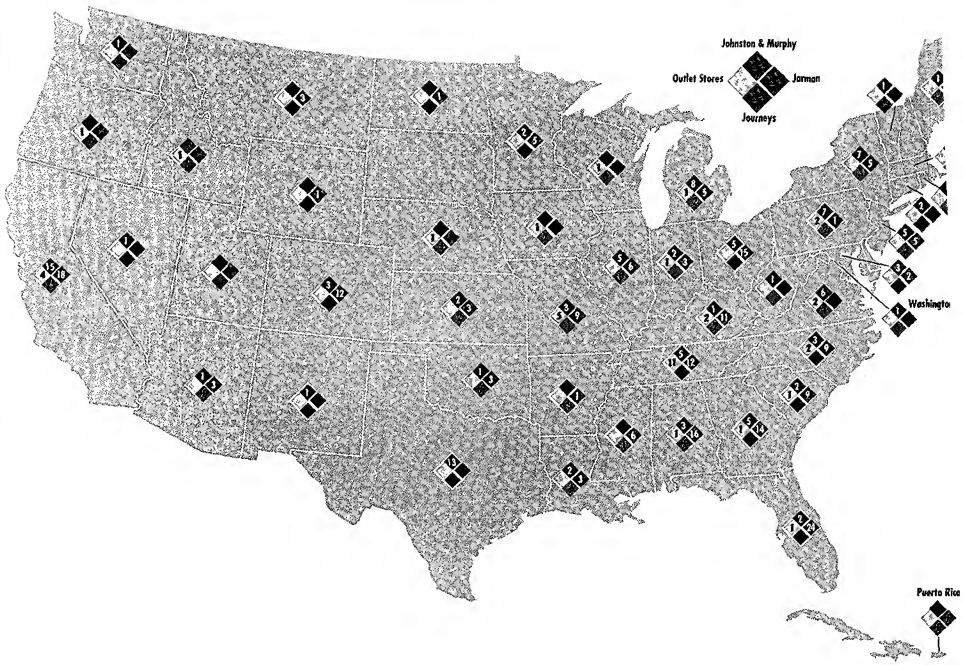
I am struck by how far Genesco has come in a little more than two years under David's leadership. In his first shareholder message in our Fiscal 1995 Annual Report, David talked about rising from a "tough year" of restructuring charges and divestitures to become "the most customer-focused company in the footwear industry with consistent performance in the top quartile, as measured by market share, sales growth, return on assets employed and operating income." While all of us here believed in the possibility of that vision, it seemed a distant prospect. Now, as the excitement of David's third shareholder message conveys, we are continuing our push to realize his original goals.

What this progress illustrates is the power of talented people, who are committed to understanding the markets they serve well enough to supply them with the right products in the right places at the right time. I am grateful for the opportunity to lead Genesco at this time because I sense as much potential in our businesses now as I can remember at any time during my 30 years with the Company.

I don't mean to imply that there are no challenges ahead. Some of our divisions are operating in difficult markets. All of our divisions must continue to execute their strategies with precision. And the entire Company is subject to the vagaries of fashion and the consumer economy. But, giving those cautionary notes all the respect they deserve, I am confident that we have learned how to work together, to exploit and maximize our advantages and to anticipate and remedy our problems.

As we move ahead, I want to focus on quality in our products and processes as the hallmark of my leadership. I have challenged the management of each one of our businesses to lead their teams to discover what quality means to them, how it is measured and how it can be achieved. I am convinced that a conscious commitment to quality are the ingredients that will bind together all the elements that contribute to our current success. This postscript has given me a great opportunity to share a little of my vision for Genesco as a prologue to my work as the chief executive officer of a great company. I look forward to reporting to you next year at this time in more detail about our progress toward our vision.

Ben T. Harris
President and Chief Executive Officer



Genesco's network of 504 retail stores is located in 45 states, including Puerto Rico and the District of Columbia.

Johnston & Murphy retail stores are major marketers of dress, dress casual and casual footwear for men ages 25-54. Including its factory stores, Johnston & Murphy operates 119 locations across the U.S.

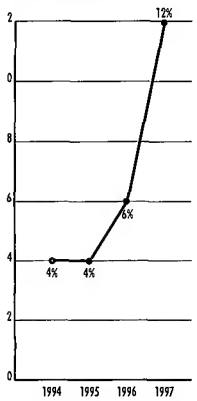
Jarman retail shoe stores market casual footwear in both its 143 retail stores and its 85 leased departments to men ages 25-45.

Journeys, a 118-unit retail chain, is a major marketer of casual footwear for men and women ages 13-22.

Outlet stores – Genesco owns and operates approximately 39 General Shoe Warehouse and Boot Factory outlets. General Shoe Warehouse features name brand men's, women's and children's footwear while Boot Factory outlet stores feature Laredo and Code West and other branded western boots and accessories, across the U.S.

The following discussion, as well as the chairman's and chief executive officer's messages above, includes certain forward-looking statements. Actual results could differ materially from those reflected by the forward-looking statements in the discussion and a number of factors may adversely affect future results, liquidity and capital resources. These factors include softness in the general retail environment, the timing and acceptance of products being introduced to the market, international trade developments affecting Chinese and other foreign sourcing of products, as discussed in greater detail below, the outcome of various litigation and environmental contingencies, including those discussed in Note 16 to the Consolidated Financial Statements, the solvency of the retail customers of the Company, the level of margins achievable in the marketplace and the ability to minimize operating expenses. They also include possible continued weakening of the western boot market, which has experienced a somewhat prolonged down cycle, resulting in declining sales and some erosion of the boot division's retail customer base. Continued weakness could require further adjustments to manufacturing capacity and other measures. Although the Company believes it has the business strategy and resources needed for improved operations, future revenue and margin trends cannot be reliably predicted and the Company may alter its business strategies during Fiscal 1998.

Same Store Sales
Retail Operations

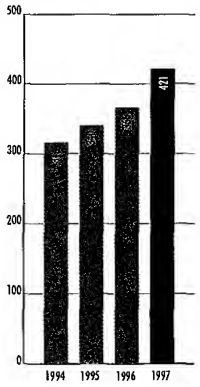


Significant Developments

Fiscal Year

For the year ended February 1, 1997 ("Fiscal 1997"), the Company changed its fiscal year end to the Saturday closest to January 31. As a result, Fiscal 1997 had 367 days, while Fiscal 1996 and 1995 had 365 days. Fiscal Years 1997, 1996 and 1995 ended on February 1, 1997, January 31, 1996 and January 31, 1995, respectively.

Sales Per Square Foot
Retail Operations



Manufacturing Restructuring

In response to the continued weakening of the western boot market, the Company approved a plan, (the "Manufacturing Restructuring"), in the third quarter of Fiscal 1997 to realign its manufacturing operations as part of an overall strategy to focus on marketing and global sourcing. The plan includes closing the Company's Hohenwald, Tennessee, western boot plant by July 1997, which the Company closed in April 1997, with the elimination of approximately 190 jobs. In connection with the adoption of the plan, the Company recorded a charge to earnings of $1.7 million including $0.5 million in asset write-downs of the plant and excess equipment to estimated market value and $1.2 million of other costs. Included in other costs is employee severance, facility shutdown and lease costs.

Fiscal 1995 Restructuring

In response to worsening trends in the Company's men's apparel business and in response to a strategic review of its footwear operations, the Company's board of directors approved a plan (the "1995 Restructuring") designed to focus the Company on its core footwear businesses by selling or liquidating four businesses, two of which constituted its entire men's apparel segment.

The 1995 Restructuring provided for the following:

1995 Restructuring Charge

- Liquidation of the University Brands children's shoe business,
- Sale of the Mitre Sports soccer business, and
- Facility consolidation costs and permanent work force reductions.

1995 Restructuring Provision

- Liquidation of The Greif Companies men's tailored clothing business, and
- Sale of the GCO Apparel Corporation tailored clothing manufacturing business.

The transactions provided for in the 1995 Restructuring were substantially complete as of January 31, 1996 and the Company does not expect any material future adjustments arising from the completion of the 1995 Restructuring. The 1995 Restructuring Charge, as adjusted, provided for the elimination of 464 jobs in footwear operations to be divested or consolidated and in staff positions to be eliminated, of which 457 jobs had been eliminated as of January 31, 1996. The divestiture of the University Brands business was completed in February 1995. The operations of The Greif Companies have ceased, its inventories and equipment have been liquidated and its last major remaining long-term lease liability was resolved in June 1995. The Company's GCO Apparel Corporation was sold in June 1995. The Company's Mitre Sports soccer business was sold in August 1995.

International Trade Developments

Manufacturers in China have become major suppliers to Genesco and other footwear companies in the United States. In Fiscal 1998 the Company expects to import approximately 28% of inventory purchases from China. In addition to the products the Company imports directly, a significant amount of the products purchased by the Company from other suppliers have been imported from China. China's most favored nation trading status was renewed for an additional year in June 1996, and a congressional effort to reverse the renewal failed in July. Additionally, the U.S. did not impose threatened trade sanctions against China in connection with a dispute over inadequate protection of intellectual property in China. Thus, while disruptions of supply from China related to trade disputes do not appear to constitute a substantial threat to the Company's business and prospects in the immediate future, China's trading status remains controversial and there can be no assurance that a subsequent failure by the U.S. to grant the annual extension of most favored nation status to China or other disruptions in the Company's ability to import shoes from China will not occur, or that any such disruption would not have a material adverse effect on the Company's operations.

Results of Operations - Fiscal 1997 Compared to Fiscal 1996

The Company's net sales from ongoing operations for the fiscal year ended February 1, 1997 increased 14.2% from the previous year. The Company's total net sales (including both ongoing operations and, for the fiscal year ended January 31, 1996, $30.8 million of sales from the operations divested as part of the 1995 Restructuring) increased 6.2%. Total gross margin for the year increased 8.2% and increased as a percentage of net sales from 39.8% to 40.5%. Selling and administrative expenses increased 3.2% from the previous year but decreased as a percentage of net sales from 35.6% to 34.6%. Pretax earnings for the fiscal year ended February 1, 1997 were $16.7 million, compared to a pretax loss of $4.3 million for the fiscal year ended January 31, 1996. Pretax earnings for Fiscal 1997 included the $1.7 million Manufacturing Restructuring charge. The pretax loss for Fiscal 1996 included a $14.1 million net increase in the 1995 Restructuring Charge, a $978,000 charge for impaired assets due to the implementation of SFAS No. 121 and recognition of a $1.8 million gain from the favorable resolution of a claim relating to import duties. The Company reported net earnings of $17.1 million ($0.66 per share) for Fiscal 1997 compared to net earnings of $10.1 million ($0.40 per share) for Fiscal 1996. Fiscal 1996 net earnings included, in addition to the 1995 Restructuring Charge adjustment and the charge for impaired assets, a positive adjustment of $14.4 million to the 1995 Restructuring Provision.

Footwear Retail

	Fiscal Year Ended		%
	1997	1996	Change
	(In Thousands)		
Net Sales	**$283,546**	$243,303	16.5%
Operating Income before Restructuring and Other Charges	**$ 26,519**	$ 18,859	40.6%
Restructuring and Other Charges	**$ —**	$ (978)	100.0%
Operating Income	**$ 26,519**	$ 17,881	48.3%
Operating Margin	**9.4%**	7.3%	

Primarily due to an increase in comparable store sales of approximately 12%, net sales from footwear retail operations increased 16.5% for Fiscal 1997 compared to Fiscal 1996. The average ptice per pair increased 5% and unit sales increased 14% for Fiscal 1997.

The Company's comparable store sales and store count at the end of the period were as follows:

		Store Count Fiscal Year End	
	Comp Sales	**1997**	1996
Jarman Retail	**+8%**	**143**	135
Jarman Lease	**+10%**	**85**	82
Journeys	**+26%**	**118**	93
Johnston & Murphy (including factory stores)	**+11%**	**119**	115
Other Outlet Stores	**-3%**	**39**	38
Total Retail	**+12%**	**504**	463

The Jarman Lease comparable store increase was aided by a 5% increase in the average square footage due to remodeling while the other outlet store decline was due to the weakness in demand for western boot products.

Gross margin as a percentage of net sales decreased from 49.2% to 48.9%, primarily from increased markdowns to stimulate sales in the Company's boot outlets and changes in product mix to more branded products. Operating expenses increased 10.7%, primarily due to increased selling salaries, advertising and rent expense and increased divisional management expenses to support new store growth, but decreased as a percentage of net sales from 41.5% to 39.4%.

Operating income before restructuring and other charges for Fiscal 1997 was up 40.6% compared to Fiscal 1996 due to increased sales and the lower expenses as a percentage of sales.

Footwear Wholesale & Manufacturing

	Fiscal Year Ended		%
	1997	1996	Change
	(In Thousands)		
Net Sales	**$177,802**	$191,272	(7.0)%
Net Sales - Ongoing	**$177,802**	$160,609	10.7 %
Operating Income before Restructuring and Other Charges	**$ 9,801**	$ 12,892	(24.0)%
Restructuring and Other Charges	**$ (1,693)**	$ (14,146)	(88.0)%
Operating Income (Loss)	**$ 8,108**	$ (1,254)	NA
Operating Margin	**4.6%**	(0.7)%	

Net sales from footwear wholesale and manufacturing operations were $13.5 million (7.0%) lower in Fiscal 1997 than in Fiscal 1996, reflecting primarily the absence of sales in Fiscal 1997 from the operations divested as part of the 1995 Restructuring. Sales from ongoing operations were up 10.7%, reflecting primarily increased men's branded footwear sales, which more than offset the continuing trend of decreased sales of western boots, primarily attributable to lower unit sales. The increase in branded sales was aided by an increase in product assortment by key retailers.

Gross margin for Fiscal 1997 decreased 8.9%, primarily from the absence of the gross margins of the divested operations, and decreased as a percentage of net sales from 27.8% to 27.2%. Gross margin for ongoing operations increased 10.0% due to increased sales but decreased as a percentage of sales from 27.4% to 27.2%. The decline in margin as a percentage of sales is due to underabsorbed overhead resulting from a reduced level of production in the Company's western boot plants. In response to the continued weakness in the western boot market and the resulting underabsorbed overhead, the Company announced in the third quarter of Fiscal 1997 a decision to close its Hohenwald, Tennessee plant. See "Significant Developments - Manufacturing Restructuring Charge" above. The plant ceased operations in April 1997.

Operating expenses decreased 10.9% and decreased as a percentage of net sales from 22.7% to 21.7%, reflecting primarily the absence of the expenses attributable to the operations divested in the 1995 Restructuring. Ongoing operations expenses increased 16.5% and increased as a percentage of sales from 20.7% to 21.7%, primarily due to (i) higher advertising expenses including advertising associated with the introduction of the Larry Mahan boot brand and (ii) higher divisional administrative expenses to support the growth in the branded businesses as well as the Larry Mahan boot brand and (iii) higher royalty expenses from higher royalty rates.

ıcluded in the operating income before restructuring and other charges for Fiscal 1996 is a one-time gain of million from the favorable resolution of a claim relating to import duties. Operating income before restructuring ɔther charges and the import duty claim decreased 11.8%, primarily due to lower earnings in the Company's western business reflecting the continued weakness of the western boot market and costs associated with the introduction ıe Larry Mahan brand.

ɔporate and Interest Expenses

Corporate and other expenses for Fiscal 1997 were $9.2 million compared to $11.2 million for Fiscal 1996, a ɾease of 18%. Included in corporate and other expenses for Fiscal 1997 and 1996 is a provision for environmental ɡation of $150,000 and $1.0 million, respectively. The decrease in corporate expenses, excluding the provision for ironmental litigation, is attributable primarily to decreased bonus accruals due to changes in the structure of the mpany's bonus plan.

Interest expense decreased $114,000, or 1%, from last year, while interest income increased $790,000 from last year e to increased short-term investments related to the cash generated from the 1995 Restructuring. There were no rrowings under the Company's revolving credit facility during Fiscal 1997, while borrowings averaged $181,000 ring Fiscal 1996.

ther Income

Operating results of businesses divested pursuant to the 1995 Restructuring are included in the Company's sales, oss margin and selling and administrative expenses for Fiscal 1996. The net operating losses incurred by these ɔerations subsequent to the decision to divest were charged against the restructuring reserves established to provide for ıch losses. The elimination of these losses from the Company's results of operations for Fiscal 1996 is presented as ther income in the Consolidated Earnings Statement. Such operating losses totalled $1.3 million for Fiscal 1996. Also ıcluded in other income for Fiscal 1996 is a $1.8 million gain from the favorable resolution of a claim relating to mport duties and the $1.0 million provision for environmental litigation.

lesults of Operations - Fiscal 1996 Compared to Fiscal 1995

The Company's total net sales (including both ongoing operations and the operations divested as part of the 1995 Restructuring) for the fiscal year ended January 31, 1996 decreased 6.1% from Fiscal 1995, reflecting lower sales from the divested operations. Net sales from ongoing operations increased 4.4% from Fiscal 1995. Total gross margin for Fiscal 1996 decreased 0.1% but increased as a percentage of net sales from 37.4% to 39.8%. Selling and administrative expenses decreased 7.0% and decreased as a percentage of net sales from 35.9% to 35.6%. The pretax loss for Fiscal 1996 was $4.3 million, compared to a pretax loss of $17.8 million for Fiscal 1995. The pretax loss for Fiscal 1996 included a $14.1 million net increase in the 1995 Restructuring Charge, and a $978,000 charge for impaired assets due to the implementation of SFAS No. 121 (see "Changes in Accounting Principles" and Note 1 to the Consolidated Financial Statements) and recognition of a $1.8 million gain from the favorable resolution of a claim relating to import duties. Fiscal 1995 pretax loss included the $22.1 million 1995 Restructuring Charge and recognition of $4.9 million of additional gain on the sale in 1987 of the Company's Canadian operations following the settlement of certain claims arising out of that transaction. The Company reported net earnings of $10.1 million ($0.40 per share) for Fiscal 1996 compared to a net loss of $81.2 million ($3.35 per share) for Fiscal 1995. Fiscal 1996 net earnings included, in addition to the 1995 Restructuring Charge adjustment and the charge for impaired assets, a positive adjustment of $14.4 million to the 1995 Restructuring Provision. Fiscal 1995 net loss included, in addition to the 1995 Restructuring Charge, $58.1 million for the adjusted 1995 Restructuring Provision. See Note 2 to the Consolidated Financial Statements and "Significant Developments - Fiscal 1995 Restructuring."

Footwear Retail

	Fiscal Year Ended		%
	1996	1995	Change
	(In Thousands)		
Net Sales	$243,303	$234,448	3.8%
Operating Income before Restructuring and Other Charges	$ 18,859	$ 17,161	9.9%
Restructuring and Other Charges	$ (978)	$ (236)	314.4%
Operating Income	$ 17,881	$ 16,925	5.6%
Operating Margin	7.3%	7.2%	

Primarily due to an increase in comparable store sales of approximately 6%, net sales from footwear retail operations increased 3.8% for Fiscal 1996 compared to Fiscal 1995, despite the operation of 6% fewer stores in Fiscal 1996. The average price per pair for Fiscal 1996 increased 8% as compared to Fiscal 1995, while unit sales were down 4%, because of heavy discounting during Fiscal 1995 in connection with the closing of 39 retail stores as part of a restructuring plan adopted in the fourth quarter of Fiscal 1994 (the "1994 Restructuring").

Gross margin as a percentage of net sales decreased from 50.5% to 49.2%, primarily from price pressures on branded products and changes in product mix to more branded products as well as increased markdowns to stimulate sales in the Company's boot outlets. Operating expenses decreased approximately 1%, primarily due to the operation of fewer stores as a result of the 1994 Restructuring and decreased as a percentage of net sales from 43.7% to 41.5%. In addition to the operation of fewer stores, expenses were down due to job eliminations as part of the 1995 Restructuring and lower selling salaries.

During the third quarter of Fiscal 1996, the Company implemented SFAS No. 121 resulting in a $978,000 charge to retail earnings. See "Changes in Accounting Principles."

Footwear Wholesale & Manufacturing

	Fiscal Year Ended		%
	1996	1995	Change
	(In Thousands)		
Net Sales	$191,272	$228,453	(16.3)%
Operating Income before Restructuring and Other Charges	$ 12,892	$ 8,473	52.2 %
Restructuring and Other Charges	$(14,146)	$ (20,578)	31.3 %
Operating Loss	$ (1,254)	$ (12,105)	(89.6)%
Operating Margin	(0.7)%	(5.3)%	

Net sales from footwear wholesale and manufacturing operations were $37.2 million (16.3%) lower in Fiscal 1996 than in Fiscal 1995, reflecting primarily lower sales from the operations divested as part of the 1995 Restructuring. Sales from ongoing operations were up 4.5%, reflecting primarily increased men's branded footwear and tanned leather sales, which more than offset the continuing trend of decreased sales of western boots, primarily attributable to lower selling prices.

Gross margin as a percentage of net sales increased from 23.9% to 27.8%, primarily from improved manufacturing utilization including efficiencies resulting from the closing of a footwear plant in February 1995 as part of the 1995 Restructuring.

Operating expenses decreased 14.6%, primarily from the divestiture of University Brands in January 1995 and Mitre Sports in August 1995, but increased as a percentage of net sales from 22.2% to 22.7%, primarily because of the lower sales in operations to be divested and increased bad debt and royalty expenses.

For Fiscal 1995, the University Brands and Mitre Sports businesses that were disposed of in the 1995 Restructuring had net sales of $74.8 million and operating loss before Restructuring Provision of $0.2 million. The operating loss is for the nine months ended October 31, 1994 since the operating results subsequent to October 31, 1994 were charged against the Restructuring Provision.

Included in the operating income from ongoing operations before restructuring and other charges for Fiscal 1996 is a one-time gain of $1.8 million from the favorable resolution of a claim relating to import duties. The increase in operating income before restructuring and other charges and the import duty claim, excluding $0.2 million of divested operations' operating loss for Fiscal 1995, is due primarily to increased sales of men's branded products and tanned leather and to improvements in gross margin and expense reductions due to the 1995 Restructuring.

Discontinued Operations

On November 3, 1994, in response to worsening trends in the Company's men's apparel business, the Company's board of directors approved a plan to exit the men's apparel business. See "Significant Developments-Fiscal 1995 Restructuring" and Note 2 to the Consolidated Financial Statements for information regarding the discontinuation of this business segment. Net sales and operating loss of the men's apparel segment in Fiscal 1995 prior to the decision to discontinue were $81.8 million and $4.5 million, respectively.

Corporate and Interest Expenses

Corporate and other expenses in Fiscal 1996 were $11.2 million, compared to $15.5 million in Fiscal 1995, a decrease of approximately 28%. Included in corporate and other expenses in Fiscal 1996 are provisions of $1.0 million for environmental litigation. Included in Fiscal 1995's corporate and other expenses are provisions of $1.4 million for environmental litigation and $2.3 million of severance costs, $1.3 million of which related to the 1995 Restructuring. The decrease in corporate expenses, excluding the above provisions, is attributable primarily to lower professional fees.

Interest expense decreased $1.6 million, or 14%, from Fiscal 1995 because of a decrease in borrowings, while interest income increased $682,000 from Fiscal 1995 due to increased short-term investments. Borrowings under the Company's revolving credit facility during Fiscal 1996 averaged $181,000 compared to average borrowings of $28.4 million during Fiscal 1995.

Other Income

Operating results of footwear businesses to be divested pursuant to the 1995 Restructuring are included in the Company's net sales, cost of sales and selling and administrative expenses. The net operating losses or gains incurred by these operations subsequent to the decision to divest are charged against the restructuring reserves established to provide for such losses or gains. The elimination of these losses from the Company's results of operations for Fiscal 1996 is presented as other income in the Consolidated Earnings Statement. Such operating losses totaled $1.3 million in Fiscal 1996. Such operating losses totaled $5.5 million for Fiscal 1995 which included operating results of stores identified for closure pursuant to the 1994 Restructuring. Also included in other income for Fiscal 1996 is a $1.8 million gain from the favorable resolution of a claim relating to import duties and the $1.0 million provision for environmental litigation.

Liquidity and Capital Resources

The following table sets forth certain financial data at the dates indicated. All dollar amounts are in millions.

	Feb. 1,	January 31,	
	1997	1996	1995
Cash and short-term investments	**$ 43.4**	$ 35.6	$ 10.2
Working capital	**$115.5**	$108.1	$100.7
Long-term debt (includes current maturities)	**$ 75.0**	$ 75.0	$ 75.0
Current ratio	**3.0x**	3.2x	2.2x

Working Capital

The Company's business is somewhat seasonal, with the Company's investment in inventory and accounts receivable normally reaching peaks in the spring and fall of each year. Cash flow from operations is ordinarily generated principally in the fourth quarter of each fiscal year.

Cash provided by operating activities was $22.4 million in Fiscal 1997, compared to $22.7 million in Fiscal 1996 and $22.5 million in Fiscal 1995. The $0.3 million reduction in cash flow from operating activities for Fiscal 1997 compared to Fiscal 1996 reflects primarily the absence of cash flows from the liquidation of assets included in the 1995 Restructuring and the additional working capital needed to support new store growth. The Company has added a net of 41 stores in Fiscal 1997 while there was a net reduction of 35 stores in Fiscal 1996. The $0.2 million improvement in cash flow from operating activities for Fiscal 1996 compared to Fiscal 1995 reflects primarily cash inflows from the liquidation of assets included in the 1995 Restructuring and lower seasonal requirements from the disposition of businesses included in the 1995 Restructuring.

An $11.0 million increase in inventories from January 31, 1996 levels reflected in the Consolidated Cash Flows Statement reflects planned increases in retail inventory to support the net increase of 41 stores from January 31, 1996 and increases in men's branded wholesale inventory to support growth in those businesses. A $6.3 million decrease in inventories from January 31, 1995 levels reflected in the Consolidated Cash Flows Statement was primarily due to liquidation of inventories in connection with the 1995 Restructuring, while the $2.0 million increase in ongoing inventories compared with January 31, 1995 reflects the growth of certain existing lines of footwear in anticipation of highet sales.

As reflected in the Consolidated Cash Flows Statement, accounts receivable at February 1, 1997 increased $0.3 million compared to January 31, 1996 primatily due to increased sales of men's branded footwear and the introduction of the Larry Mahan boot brand. Accounts receivable at Februaty 1, 1997 were $1.7 million less than at January 31, 1996 primarily due to incteased provisions for bad debts relating to western boot customers. Accounts receivable at January 31, 1996 were $15.5 million less than at January 31, 1995 primarily from collection of receivables in the operations being divested in the 1995 Restructuring. Ongoing accounts receivable at January 31, 1996 were $55,000 more than January 31, 1995.

Cash provided (or used) due to changes in accounts payable and accrued liabilities in the Consolidated Cash Flows Statement at February 1, 1997 and January 31, 1996 and 1995 are as follows:

	Fiscal Year Ended		
(In Thousands)	**1997**	1996	1995
Accounts payable	**$10,625**	$ (3,655)	$(2,204)
Accrued liabilities	**(1,665)**	(9,369)	(4,754)
	$ 8,960	$(13,024)	$(6,958)

The fluctuations in accounts payable for Fiscal 1997 from Fiscal 1996 are due to changes in buying patterns, payment terms negotiated with individual vendors and changes in inventory levels, while the decrease in accounts payable for Fiscal 1996 from Fiscal 1995 relates primarily to the divestitures associated with the 1995 Restructuring.

The change in accrued liabilities in Fiscal 1997 was due primarily to payment of bonuses and to payment of severance costs and liabilities related to the Restructurings. The change in accrued liabilities in Fiscal 1996 was due to payment of severance costs and liabilities related to the Restructurings. The change in accrued liabilities in Fiscal 1995 was due primarily to payments of severance costs, liabilities and leases related to the Restructurings.

There were no revolving credit borrowings during Fiscal 1997, as cash generated from operations and cash on hand funded seasonal working capital requirements and capital expenditures. There were only minimal revolving credit borrowings during Fiscal 1996 as cash generated from the 1995 Restructuring more than offset seasonal working capital increases in the remaining operations. On January 5, 1996, the Company entered into a revolving credit agreement with two banks providing for loans or letters of credit of up to $35 million. The agreement, as amended October 31, 1996, expires January 5, 1999. The revolving credit agreement was amended to increase the annual capital expenditure limit to $16.0 million for Fiscal 1997 and $25.0 million thereafter, subject to possible carryforwards from the previous year of up to $2.0 million if less is spent in the current year.

Capital Expenditures

Capital expenditures were $14.6 million in Fiscal 1997, $8.6 million in Fiscal 1996 and $5.8 million in Fiscal 1995. The $6.0 million increase in Fiscal 1997 capital expenditures as compared to Fiscal 1996 resulted primarily from the net increase of 41 new retail stores in Fiscal 1997. The $2.8 million increase in Fiscal 1996 capital expenditures as compared to Fiscal 1995 resulted from leasehold improvements to the corporate office building for new tenants due to the downsizing of the Company, an increase in retail store renovations and an increase in purchases of production equipment.

Total capital expenditures in Fiscal 1998 are expected to be approximately $26.4 million. These include expected retail expenditures of $16.4 million to open approximately 92 new retail stores and to complete 44 major store renovations. Capital expenditures for wholesale and manufacturing operations and other purposes are expected to be approximately $10.0 million, including approximately $6.0 million for new systems to improve customer service and support the Company's growth.

Litigation Settlement

On April 25, 1997, the Company entered into an agreement to settle the case of *Miller, et al. v. Genesco Inc., et al.* pending in the Southern District of New York since 1993. The settlement anticipates that the Company will issue a number of shares of its common stock sufficient to provide proceeds to the plaintiffs of $6.7 million and that the plaintiffs will receive a cash payment from its insurance carrier. The settlement will not result in any charge to earnings. See Note 16 to the Consolidated Financial Statements.

Future Capital Needs

The Company expects that cash on hand and cash provided by operations will be sufficient to fund all of its capital expenditures through Fiscal 1998, although the Company may borrow from time to time to support seasonal working capital requirements. The approximately $5.4 million of costs associated with the 1994 Restructuring, 1995 Restructuring and the Manufacturing Restructuring that are expected to be incurred during the next twelve months are also expected to be funded from cash on hand and from cash generated from operations.

There were $8 million of letters of credit outstanding under the revolving credit agreement at February 1, 1997, leaving availability under the revolving credit agreement of $27 million.

The restticted payments covenant contained in the indenture under which the Company's 10¾% senior notes were issued prohibits the Company from declaring dividends on the Company's capital stock, except from a pool of available net earnings and the proceeds of stock sales. At February 1, 1997, that pool was in a $91.3 million deficit position. The aggregate of annual dividend requirements on the Company's Subordinated Serial Preferred Stock, $2.30 Series 1, $4.75 Series 3 and $4.75 Series 4, and on its $1.50 Subordinated Cumulative Prefetred Stock is $301,000. The Company currently has dividend arrearages in the amount of $978,000 and is unable to predict when dividends may be reinstated.

On November 7, 1994, Standard & Poor's announced that it had lowered the rating of the 10¾% Notes to B from B+ based on its concern that Genesco's ongoing business operations will not provide the earnings and cash flow generation reflective of a B+ senior credit rating. On January 30, 1996, Moody's confirmed their B2 senior debt rating of Genesco's 10¾% Notes which ended a review of Genesco's rating initiated by Moody's on November 10, 1995. According to Standard & Poor's, a debt instrument rated B has a greater vulnerability to default than debt rated BB, but currently has the capacity to meet interest and principal payments. According to Moody's, the assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small with respect to a debt instrument rated B. Ratings are not a recommendation to purchase, hold or sell long-term debt of the Company, inasmuch as ratings do not comment as to market price or suitability for patticular investors and may be subject to revision or withdrawal at any time by the assigning rating agency.

Foreign Currency

The Company does not believe that its foreign currency risk is material to its operations. Most purchases by the Company from foreign sources are denominated in U.S. dollars. To the extent that import transactions are denominated in other currencies, it is the Company's practice to hedge its risks through the purchase of forwatd foreign exchange contracts. Any gains or losses from such transactions offset gains and losses from the underlying hedged transactions.

Changes in Accounting Principles

The Company implemented Statement of Financial Accounting Standards (SFAS) 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" in the third quarter of Fiscal 1996. This statement establishes accounting standards for determining impairment of long-lived assets. The Company periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than carrying amount. During the third quarter, the Company identified certain retail stores that were impaired because of a history of and current period cash flow losses in these specific stores. An impairment loss of $978,000 was recognized for these retail stores and is included in the "Restructuring and other charges" line on the income statement for the twelve months ended January 31, 1996.

Changes in the economic environment have historically affected the Company's results of operations, therefore the Company limits the amount of deferred tax assets it recognizes to an amount no greater than the amount of tax refunds the Company could claim as loss carrybacks. For additional information, see Note 12 to the Consolidated Financial Statements.

Inflation

The Company does not believe inflation during periods covered in this discussion has had a matetial impact on sales or operating results.

In Thousands except Per Common Share Data, Financial Statistics and Other Data	**1997**	1996	1995	1994	1993
					Fiscal Year End
Results of Operations Data					
Net sales	**$461,348**	$434,575	$462,901	$467,891	$430,127
Depreciation and amortization	**7,747**	7,354	9,254	10,723	9,719
Operating income (loss)*	**34,627**	16,627	4,820	(2,968)	27,415
Pretax earnings (loss)	**16,682**	(4,256)	(17,757)	(29,788)	7,638
Earnings (loss) before discontinued operations, extraordinary loss and cumulative effect of change in accounting principle	**17,104**	(4,281)	(18,514)	(27,888)	2,640
Discontinued operations	**0**	14,352	(62,678)	(23,891)	7,053
Loss on early retirement of debt (net of tax)	**0**	0	0	240	583
Cumulative effect of change in accounting for postretirement benefits	**0**	0	0	2,273	0
Net earnings (loss)	**$ 17,104**	$ 10,071	$ (81,192)	$ (54,292)	$ 9,110
Per Common Share Data					
Earnings (loss) before discontinued operations, extraordinary loss and postretirement benefits					
Primary	**$ .66**	$ (.19)	$ (.77)	$ (1.17)	$ .10
Fully diluted	**.65**	(.18)	(.77)	(1.17)	.10
Discontinued operations					
Primary	**.00**	.59	(2.58)	(.99)	.30
Fully diluted	**.00**	.57	(2.58)	(.99)	.30
Extraordinary loss					
Primary	**.00**	.00	.00	(.01)	(.02)
Fully diluted	**.00**	.00	.00	(.01)	(.02)
Postretirement benefits					
Primary	**.00**	.00	.00	(.09)	.00
Fully diluted	**.00**	.00	.00	(.09)	.00
Net earnings (loss)					
Primary	**.66**	.40	(3.35)	(2.26)	.38
Fully diluted	**.65**	.39	(3.35)	(2.26)	.38
Balance Sheet Data					
Total assets	**$217,654**	$197,806	$243,878	$309,386	$317,868
Long-term debt	**75,000**	75,000	75,000	90,000	54,000
Capital leases	**1,485**	2,697	12,400	15,253	14,901
Non-redeemable preferred stock	**7,944**	7,958	7,943	8,064	8,305
Common shareholders' equity	**52,546**	25,947	21,450	90,659	146,746
Additions to plant, equipment and capital leases	**14,640**	8,564	5,750	8,356	10,132
Financial Statistics					
Operating income (loss) as a percent of net sales	**7.5%**	3.8%	1.0%	(0.6%)	6.4%
Book value per share	**$ 2.09**	$ 1.04	$ .87	$ 3.73	$ 6.33
Working capital	**$115,495**	$108,135	$100,731	$160,094	$168,875
Current ratio	**3.0**	3.2	2.2	3.3	3.5
Percent long-term debt to total capital	**55.8%**	69.6%	74.8%	51.6%	30.8%
Other Data (End of Year)					
Number of retail outlets	**504**	463	498	518	540
Number of employees	**4,050**	3,750	5,400	6,950	6,550

**Represents operating income of the footwear business segment.*

Reflected in the earnings for Fiscal 1997 and 1996 were restructuring and other charges of $1.7 million and $15.1 million, respectively. See Note 2 to the Consolidated Financial Statements for additional information regarding these charges.

Reflected in the loss for Fiscal 1995 and Fiscal 1994 was a restructuring charge of $22.1 million and $12.3 million, respectively. See Note 2 to the Consolidated Financial Statements for additional information regarding these charges.

Long-term debt and capital leases include current payments. On February 1, 1993, the Company issued $75 million of 10 ¾% senior notes due 2003. The Company used $54 million of the proceeds to repay all of its outstanding long-term debt.

The Company has not paid dividends on its Common Stock since 1973. See Note 11 to the Consolidated Financial Statements for a description of limitations on the Company's ability to pay dividends.

Management's Responsibility For Financial Statements

Genesco Inc. and Consolidated Subsidiaries

The consolidated financial statements presented in this repott are the responsibility of management and have been prepared in conformiry with generally accepted accounting principles. Some of the amounts included in the financial information are necessarily based on estimates and judgements of management.

The Company maintains accounting and related internal control systems designed to provide, among other things, reasonable assurance that transactions are executed in accordance with management's authorization and that they are recorded and reported properly. An integral part of the control system is an internal audit program which regularly reviews the internal control systems of the Company and coordinates its activity with the examination by the Company's independent accountants. There are limitations inherent in all systems of internal control, and the Company weighs the cost of such systems against the expected benefits.

The financial statements have been examined by our independent accountants, Price Waterhouse. Their primary role is to render an independent professional opinion on the financial statements. Their examination, which is performed in accordance with the generally accepted auditing standards, includes a study and evaluation of the Company's accounting systems and internal controls sufficient to express their opinion on those financial statements.

The audir committee of the board of directors, composed entirely of directors who are not employees of the Company, meets regularly with management, the internal auditor and the independent accountants to review the results of their work and to satisfy itself that their responsibilities are being properly discharged. The internal auditor and the independent accountants have full and free access to the audit committee and meet (with and without management present) to discuss appropriate matrers.

James S. Gulmi
Senior Vice President-Finance
Chief Financial Officer

Paul D. Williams
Chief Accounting Officer

Report of Independent Accountants

Price Waterhouse LLP

Nashville, Tennessee
February 25, 1997

To the Board of Directors and Shareholders of Genesco Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Genesco Inc. and its subsidiaries at February 1, 1997 and January 31, 1996, and the results of their operations and their cash flows for each of the three years in the period ended February 1, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Consolidated Balance Sheet

Genesco Inc. and Consolidated Subsidiaries

In Thousands	As of Fiscal Year End 1997	1996
Assets		
Current Assets		
Cash and short-term investments	$ 43,375	$ 35,550
Accounts receivable	30,389	32,135
Inventories	95,884	84,930
Other current assets	4,509	4,317
Total current assets	174,157	156,932
Plant, equipment and capital leases, net	34,471	28,552
Other noncurrent assets	9,026	12,322
Total Assets	$217,654	$197,806
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 54,631	$ 43,686
Provision for discontinued operations	3,263	3,899
Current payments on capital leases	768	1,212
Total current liabilities	58,662	48,797
Long-term debt	75,000	75,000
Capital leases	717	1,485
Other long-term liabilities	11,172	25,265
Provision for discontinued operations	11,613	13,354
Total liabilities	157,164	163,901
Contingent liabilities (see Note 16)	—	—
Shareholders' Equity		
Non-redeemable preferred stock	7,944	7,958
Common shareholders' equity:		
Par value of issued shares	25,195	24,844
Additional paid-in capital	122,615	121,715
Accumulated deficit	(77,407)	(94,511)
Minimum pension liability adjustment	0	(8,244)
Treasury shares, at cost	(17,857)	(17,857)
Total shareholders' equity	60,490	33,905
Total Liabilities and Shareholders' Equity	$217,654	$197,806

The accompanying Notes are an integral part of these Financial Statements.

Consolidated Earnings

Genesco Inc. and Consolidated Subsidiaries

In Thousands, except per share amounts	Fiscal Year 1997	1996	1995
Net sales	**$461,348**	$434,575	$462,901
Cost of sales	**274,273**	261,743	289,961
Selling and administrative expenses	**159,518**	154,567	166,156
Restructuring and other charges	**1,693**	15,124	22,114
Earnings (loss) from operations before other income and expenses	**25,864**	3,141	(15,330)
Other expenses (income):			
Interest expense	**10,289**	10,403	12,031
Interest income	**(1,548)**	(758)	(76)
Gain on divestiture	**0**	0	(4,900)
Other expense (income)	**441**	(2,248)	(4,628)
Total other (income) expenses, net	**9,182**	7,397	2,427
Earnings (loss) before income taxes and discontinued operations	**16,682**	(4,256)	(17,757)
Income taxes (benefit)	**(422)**	25	757
Earnings (loss) before discontinued operations	**17,104**	(4,281)	(18,514)
Discontinued operations:			
Operating loss	**0**	0	(4,540)
Excess provision (provision) for future losses	**0**	14,352	(58,138)
Net Earnings (Loss)	**$ 17,104**	$ 10,071	$ (81,192)
Earnings (loss) per common share:			
Before discontinued operations	**$ .66**	$ (.19)	$ (.77)
Discontinued operations	**$ .00**	$ .59	$ (2.58)
Net earnings (loss)	**$ .66**	$ .40	$ (3.35)

The accompanying Notes are an integral part of these Financial Statements.

Consolidated Cash Flows

Genesco Inc. and Consolidated Subsidiaries

In Thousands	1997	1996	Fiscal Year 1995
Operations:			
Net earnings (loss)	**$ 17,104**	$ 10,071	$(81,192)
Noncash charges (credits) to earnings:			
(Excess) provision for loss on discontinued operations	**0**	(14,352)	58,138
Restructuring charge	**1,693**	14,147	22,114
Depreciation and amortization	**7,747**	7,354	9,254
Impairment of long-lived assets	**0**	978	0
Provision for environmental liabilities	**150**	1,000	700
Provision for deferred income taxes	**(415)**	0	1,404
Gain on divestiture	**0**	0	(4,900)
Provision for losses on accounts receivable	**2,060**	1,799	813
Other	**699**	548	376
Net cash provided by operations before working capital and other changes	**29,038**	21,545	6,707
Effect on cash of changes in working capital and other assets and liabilities:			
Accounts receivable	**(314)**	15,466	44
Inventories	**(10,954)**	6,280	25,458
Other current assets	**(192)**	165	100
Accounts payable and accrued liabilities	**8,960**	(13,024)	(6,958)
Other assets and liabilities	**(4,136)**	(7,780)	(2,881)
Net cash provided by operations	**22,402**	22,652	22,470
Investing Activities:			
Capital expenditures	**(14,631)**	(8,564)	(5,750)
Proceeds from businesses divested and asset sales	**76**	18,763	8,032
Net cash provided by (used in) investing activities	**(14,555)**	10,199	2,282
Financing Activities:			
Net borrowings (repayments) under revolving credit agreement	**0**	0	(15,000)
Net change in short-term borrowings	**0**	2,522	(69)
Payments on capital leases	**(1,220)**	(9,703)	(2,852)
Exercise of options and warrants and employee stock purchases	**1,202**	23	6
Other	**(4)**	(378)	(227)
Net cash used in financing activities	**(22)**	(7,536)	(18,142)
Net Cash Flow	**7,825**	25,315	6,610
Cash and short-term investments at beginning of year	**35,550**	10,235	3,625
Cash and short-term investments at end of year	**$ 43,375**	$ 35,550	$ 10,235
Supplemental Cash Flow Information:			
Net cash paid (received) for:			
Interest	**$ 9,887**	$ 9,146	$ 11,227
Income taxes	**(42)**	(802)	(2,457)

The accompanying Notes are an integral part of these Financial Statements.

Consolidated Shareholders' Equity

Genesco Inc. and Consolidated Subsidiaries

In Thousands	Total Non-Redeemable Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated (Deficit)	Treasury Stock	Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustment	Total Share-holders' Equity
Balance January 31, 1994	$8,064	$24,793	$121,634	$ (23,241)	$(17,857)	$(4,706)	$(9,964)	$98,723
Exercise of options	0	2	4	0	0	0	0	6
Translation adjustments:								
Year-to-date adjustments	0	0	0	0	0	2,136	0	2,136
Realized in FY 1995 restructuring	0	0	0	0	0	2,570	0	2,570
Net loss	0	0	0	(81,192)	0	0	0	(81,192)
Minimum pension liability adjustment	0	0	0	0	0	0	7,351	7,351
Other	(121)	37	32	(149)	0	0	0	(201)
Balance January 31, 1995	$7,943	$24,832	$121,670	$(104,582)	$(17,857)	$ 0	$(2,613)	$29,393
Exercise of options	0	8	15	0	0	0	0	23
Net earnings	0	0	0	10,071	0	0	0	10,071
Minimum pension liability adjustment	0	0	0	0	0	0	(5,631)	(5,631)
Other	15	4	30	0	0	0	0	49
Balance January 31, 1996	$7,958	$24,844	$121,715	$ (94,511)	$(17,857)	$ 0	$(8,244)	$33,905
Exercise of options	0	187	455	0	0	0	0	642
Issue shares— Employee Stock Purchase Plan	0	161	399	0	0	0	0	560
Net earnings	0	0	0	17,104	0	0	0	17,104
Minimum pension liability adjustment	0	0	0	0	0	0	8,244	8,244
Other	(14)	3	46	0	0	0	0	35
Balance February 1, 1997	**$7,944**	**$25,195**	**$122,615**	**$ (77,407)**	**$(17,857)**	**$ 0**	**$ 0**	**$60,490**

See Note 11 for additional information regarding each series of preferred stock.

The accompanying Notes are an integral part of these Financial Statements.

Note 1

Summary of Significant Accounting Policies

Nature of Operations

The Company's businesses include the manufacture or sourcing, marketing and distribution of footwear under the Johnston & Murphy, Laredo, Code West, Larry Mahan, Dockers and Nautica brands, the tanning and distribution of leather by the Volunteer Leather division and the operation of Jarman, Journeys, Johnston & Murphy, Boot Factory and General Shoe Warehouse retail footwear stores.

Basis of Presentation

All subsidiaries are included in the consolidated financial statements. All significant intercompany transactions and accounts have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

For the year ended February 1, 1997 ("Fiscal 1997"), the Company changed its fiscal year end to the Saturday closest to January 31. As a result, Fiscal 1997 had 367 days, while Fiscal 1996 and 1995 had 365 days. Fiscal Years 1997, 1996 and 1995 ended on February 1, 1997, January 31, 1996 and January 31, 1995, respectively.

Fair Value of Financial Instruments

The carrying amount of cash, cash equivalents, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments. The fair value of the Company's $75.0 million 10⅝% senior notes is estimated based on the quoted market price as of February 1, 1997 which is $76.1 million (see Note 9).

Cash and Short-term Investments

Included in cash and short-term investments at February 1, 1997 and January 31, 1996, are short-term investments of $38.1 million and $32.0 million, respectively. Short-term investments are highly-liquid debt instruments having an original maturity of three months or less.

Inventories

Inventories of wholesaling and manufacturing companies are stated at the lower of cost or market, with cost determined principally by the first-in, first-out method. Retail inventories are determined by the retail method.

Plant, Equipment and Capital Leases

Plant, equipment and capital leases are recorded at cost and depreciated or amortized over the estimated useful life of related assets. Depreciation and amortization expense are computed principally by the straight-line method.

The Company implemented Statement of Financial Accounting Standards (SFAS) 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" in the third quarter of Fiscal 1996. This statement establishes accounting standards for determining impairment of long-lived assets. The Company periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than carrying amount. During the third quarter of Fiscal 1996, the Company identified certain retail stores that were impaired because of a history of and current period cash flow losses in these specific stores. An impairment loss of $978,000 was recognized for these retail stores and is included in the "Restructuring and other charges" line on the income statement for the year ended January 31, 1996.

Note 1

Summary of Significant Accounting Policies Continued

Hedging Contracts

In order to reduce exposure to foreign currency exchange rate fluctuations in connection with inventory purchase commitments, the Company enters into foreign currency forward exchange contracts for Italian Lira. At February 1, 1997 and January 31, 1996, the Company had approximately $18.8 million and $4.9 million, respectively, of such contracts outstanding. Forward exchange contracts have an average term of approximately five months. Gains and losses arising from these contracts offset gains and losses from the underlying hedged transactions. The Company monitors the credit quality of the major national and regional financial institutions with whom it enters into such contracts.

Postretirement Benefits

Substantially all full-time employees are covered by a defined benefit pension plan. The Company also provides certain former employees with limited medical and life insurance benefits. The Company funds at least the minimum amount required by the Employee Retirement Income Security Act.

In accordance with SFAS 106, postretirement benefits such as life insurance and health care are accrued over the period the employee provides services to the Company.

Environmental Costs

Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated and are evaluated independently of any future claims for recovery. Generally, the timing of these accruals coincides with completion of a feasibility study or the Company's commitment to a formal plan of action. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

Income Taxes

Deferred income taxes are provided for all temporary differences and operating loss and tax credit carryforwards limited, in the case of deferred tax assets, to the amount of taxes recoverable from taxes paid in the current or prior years.

Earnings Per Common Share

Earnings per common share are computed by dividing earnings, adjusted for preferred dividend requirements (1997 - $301,000; 1996 - $302,000; 1995 - $302,000), by average common and common stock equivalents outstanding during the period.

Stock-Based Compensation Plans

The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized other than for its restricted stock options. (see Note 15).

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ıufacturing Restructuring

In response to the continued weakening of the western boot market, the Company approved a plan, (the lanufacturing Restructuring"), in the third quarter of Fiscal 1997 to realign its manufacturing operations as part an overall strategy to focus on marketing and global sourcing. The plan includes closing the Company's Hohenwald, nnessee western boot plant by July 1997 with the elimination of approximately 190 jobs. In connection with the option of the plan, the Company recorded a charge to earnings of $1.7 million including $0.5 million in asset write-›wns of the plant and excess equipment to estimated market value and $1.2 million of other costs. Included in other ›sts is employee severance, facility shutdown and lease costs.

cal 1995 Restructuring

In response to worsening trends in the Company's men's apparel business and in response to a strategic review of its ›otwear operations, the Company's board of directors approved a plan (the "1995 Restructuring") designed to focus ıe Company on its core footwear businesses by selling or liquidating four businesses, two of which constituted its ntire men's apparel segment.

The 1995 Restructuring provided for the following:

1995 Restructuring Charge

- Liquidation of the University Brands children's shoe business,
- Sale of the Mitre Sports soccer business, and
- Facility consolidation costs and permanent work force reductions.

1995 Restructuring Provision

- Liquidation of The Greif Companies men's tailored clothing business, and
- Sale of the GCO Apparel Corporation tailored clothing manufacturing business.

In connection with the 1995 Restructuring, the Company took a combined charge of $90.7 million in the third quarter of Fiscal 1995, of which $22.1 million (the "1995 Restructuring Charge") related to University Brands and Mitre and facility consolidation costs and permanent work force reductions and $68.6 million (the "1995 Restructuring Provision") related to Greif and GCO Apparel, which constituted the entire men's apparel segment of the Company's business, and is, therefore, treated for financial reporting purposes as a provision for discontinued operations.

In the fourth quarter of Fiscal 1995, the 1995 Restructuring Provision was positively adjusted by $10.5 million reducing the $68.6 million provision for future losses of discontinued operations to $58.1 million. The adjustment reflected the favorable consequences of a transfer, not anticipated at the time the provision was recorded, of a licensing agreement for men's apparel to another manufacturer. The transfer resulted in realization of inventory and accounts receivable balances on more favorable terms than anticipated, assumption of piece goods commitments by other manufacturers and cancellation of minimum royalty requirements under the transferred license.

In the first quarter of Fiscal 1996, the Company took an additional restructuring charge of $14.1 million relating to the 1995 Restructuring. The additional restructuring charge reflected the lowering of anticipated proceeds from the sale of the Mitre Sports soccer business. In addition, the 1995 Restructuring Provision was adjusted by an additional reversal of $12.7 million. The reversal reflected primarily (1) an agreement during the quarter providing for the resolution of a long-term lease liability on terms more favorable than were anticipated when the 1995 Restructuring Provision was established, (2) better than anticipated realization of inventories and accounts receivable as the remaining Greif inventory was liquidated in the first quarter of Fiscal 1996 and (3) lower than anticipated union pension liability, which the pension fund determined and announced to the Company during the quarter.

Note 2

Restructurings Continued

Throughout the remainder of Fiscal 1996, the Company recognized additional reductions to the 1995 Restructuring Charge and Provision of $1.7 million as actual events differed from the original estimates.

The transactions provided for in the 1995 Restructuring were substantially complete as of January 31, 1996 and the Company does not expect any material future adjustments arising from the completion of the 1995 Restructuring. The 1995 Restructuring Charge, as adjusted, provided for the elimination of 464 jobs in footwear operations to be divested or consolidated and in staff positions to be eliminated, of which 457 jobs had been eliminated as of January 31, 1996. The divestiture of the University Brands business was completed in February 1995. The operations of The Greif Companies have ceased, its inventories and equipment have been liquidated and its last major remaining long-term lease liability was resolved in June 1995. The Company's GCO Apparel Corporation was sold in June 1995. The Company's Mitre Sports soccer business was sold in August 1995 with cash proceeds to the Company of approximately $19.1 million, including repayment of intercompany balances.

The operating results of the men's apparel segment prior to the decision to discontinue, classified as discontinued operations in the consolidated earnings statement, are shown below:

In Thousands	Year Ended January 31, 1995
Net sales	$81,777
Cost of sales and expenses	86,317
Pretax loss	(4,540)
Income tax expense (benefit)	0
Net Loss	$(4,540)

Discontinued operations' sales subsequent to the decision to discontinue were $20.0 million for Fiscal 1996.

Net sales for Mitre and University Brands for Fiscal 1996 and 1995 were $30.8 million and $76.0 million, respectively. Operating loss for Mitre and University Brands before the restructuring provisions for Fiscal 1995 was $304,000.

Operating results of footwear businesses divested pursuant to the 1995 Restructuring are included in the Company's sales, cost of sales and selling and administrative expenses. The net operating losses incurred by these operations subsequent to the decision to divest are charged against the restructuring reserves established to provide for such losses. The elimination of these losses from the Company's results of operations for Fiscal 1996 is presented as other income in the Consolidated Earnings Statement. Such operating losses totalled $1.3 million for Fiscal 1996. Such operating losses totalled $5.5 million for Fiscal 1995 which included operating results of stores identified for closure pursuant to the 1994 Restructuring.

Note 3
Accounts Receivable

In Thousands	**1997**	1996
Trade accounts receivable	**$32,721**	$33,068
Miscellaneous receivables	**2,960**	3,263
Total receivables	**35,681**	36,331
Allowance for bad debts	**(3,353)**	(2,065)
Other allowances	**(1,939)**	(2,131)
Net Accounts Receivable	**$30,389**	$32,135

The Company's footwear wholesaling business sells primarily ro independent retailers and department stores across the United States. Receivables arising from these sales are not collateralized. Credit risk is affected by conditions or occurrences within the economy and the retail industry. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. No single customer accounted for more than 8% of the Company's trade receivables balance as of February 1, 1997.

Note 4
Inventories

In Thousands	**1997**	1996
Raw materials	**$ 8,870**	$ 9,229
Work in process	**3,333**	3,792
Finished goods	**29,270**	22,935
Retail merchandise	**54,411**	48,974
Total Inventories	**$95,884**	$84,930

Note 5
Plant, Equipment and Capital Leases, Net

In Thousands	1997	1996
Plant and equipment:		
Land	$ 241	$ 75
Buildings and building equipment	2,552	2,799
Machinery, furniture and fixtures	37,522	32,927
Construction in progress	3,130	1,114
Improvements to leased property	42,734	39,195
Capital leases:		
Land	60	60
Buildings	1,904	2,195
Machinery, furniture and fixtures	7,285	7,392
Plant, equipment and capital leases, at cost	95,428	85,757
Accumulated depreciation and amortization:		
Plant and equipment	(53,241)	(50,355)
Capital leases	(7,716)	(6,850)
Net Plant, Equipment and Capital Leases	**$34,471**	$28,552

Note 6
Other Noncurrent Assets

In Thousands	1997	1996
Other noncurrent assets:		
Pension plan asset	$ 4,750	$ 8,051
Investments and long-term receivables	1,792	1,772
Deferred tax asset	415	0
Deferred note expense	2,069	2,499
Total Other Noncurrent Assets	**$ 9,026**	$12,322

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ccounts Payable and Accrued Liabilities

In Thousands	1997	1996
Trade accounts payable	$22,730	$12,105
Accrued liabilities:		
Employee compensation	9,471	10,733
Interest	4,017	3,992
Taxes other than income taxes	3,118	3,361
Insurance	3,089	4,381
Other	12,206	9,114
Total Accounts Payable and Accrued Liabilities	$54,631	$43,686

At February 1, 1997, outstanding checks drawn on certain domestic banks exceeded book cash balances by approximately $4.5 million. These amounts are included in trade accounts payable.

Note 8

Provision for Discontinued Operations and Restructuring Reserves

Provision for Discontinued Operations

In Thousands	Employee Related Costs	Facility Shutdown Costs	Other	Total
Balance January 31, 1996	$15,222	$ 10	$2,021	$17,253
Charges and adjustments, net	(1,866)	(10)	(501)	(2,377)
Balance Febtuary 1, 1997	13,356	0	1,520	14,876
Current portion	1,743	0	1,520	3,263
Total Noncurrent Provision for Discontinued Operations	$11,613	$ 0	$ 0	$11,613

Note 8

Provision for Discontinued Operations and Restructuring Reserves Continued

Restructuring Reserves

In Thousands	Employee Related Costs	Facility Shutdown Costs	Other	Total
Balance January 31, 1996	$ 956	$1,666	$ 382	$ 3,004
Manufacturing restructuring	748	451	0	1,199
Charges and adjustments, net	(1,032)	(480)	(13)	(1,525)
Balance February 1, 1997	672	1,637	369	2,678
Current portion (included in accounts payable and accrued liabilities)	672	1,106	369	2,147
Total Noncurrent Restructuring Reserves (included in other long-term liabilities)	$ 0	$ 531	$ 0	$ 531

Note 9

Long-Term Debt

In Thousands	**1997**	1996
10¾% senior notes due February 2003	**$75,000**	$75,000

Revolving Credit Agreements:

On January 5, 1996, the Company entered into a revolving credit agreement with two banks providing for loans or letters of credit of up to $35 million. The agreement, as amended October 31, 1996, expires January 5, 1999. This agreement replaced a $50 million revolving credit agreement providing for loans or letters of credit. Outstanding letters of credit at February 1, 1997 were $8 million.

Under the revolving credit agreement, the Company may borrow at the prime rate or LIBOR plus 2.0% which may be changed if the Company's debt rating is improved. Facility fees are 0.5% per annum on each bank's committed amount or $35.0 million. The new credit agreement requires the Company to meet certain financial ratios and covenants, including minimum tangible net worth, fixed charge coverage, debt to equity and interest coverage ratios. The Company is required by the credit agreement to reduce the outstanding principal balance of the revolving loans to zero for 45 consecutive days during each period beginning on December 15 of any Fiscal Year and ending on April 15 of the following Fiscal Year. The revolving credit agreement, as amended, contains other covenants which restrict the payment of dividends and other payments with respect to capital stock. In addition, annual capital expenditures are limited to $25.0 million for Fiscal 1998 and thereafter subject to possible carryforwards from the previous year of up to $2.0 million if less is spent in the current year. The Company was in compliance with the financial covenants contained in the revolving credit agreement at February 1, 1997.

Note 9

Long-Term Debt Continued

10⅜% Senior Notes due 2003:

On February 1, 1993, the Company issued $75 million of 10⅜% senior notes due February 1, 2003.

The fair value of the Company's 10⅜% senior notes, based on the quoted market price on February 1, 1997, is $76.1 million.

The indenture under which the notes were issued limits the incurrence of indebtedness, the making of restricted payments, the restricting of subsidiary dividends, transactions with affiliates, liens, sales of assets and transactions involving mergers, sales or consolidations.

Note 10

Commitments Under Long-Term Leases

Capital Leases

Future minimum lease payments under capital leases at Februaty 1, 1997, together with the present value of the minimum lease payments, are:

Fiscal Years	*In Thousands*
1998	$ 865
1999	400
2000	139
2001	139
2002	109
Later years	79
Total minimum payments	1,731
Interest discount amount	246
Total present value of minimum payments	1,485
Current portion	768
Total Noncurrent Portion	$ 717

Operating Leases

Rental expense under operating leases of continuing operations was:

In Thousands	**1997**	1996	1995
Minimum rentals	**$18,719**	$17,942	$18,678
Contingent rentals	**10,270**	8,776	8,234
Sublease rentals	**(1,035)**	(754)	(478)
Total Rental Expense	**$27,954**	$25,964	$26,434

Note 10

Commitments Under Long-Term Leases Continued

Minimum rental commitments payable in future years are:

Fiscal Years	*In Thousands*
1998	$19,404
1999	17,325
2000	14,542
2001	10,419
2002	7,215
Later years	19,733
Total Minimum Rental Commitments	$88,638

Most leases provide for the Company to pay real estate taxes and other expenses and contingent rentals based on sales. Approximately 12% of the Company's leases contain renewal options.

Note 11

Shareholders' Equity

Non-Redeemable Preferred Stock

	Shares	Number of Shares			Amounts in Thousands			Common Convertible	No. of
Class	Authorized	**1997**	1996	1995	**1997**	1996	1995	Ratio	Votes
Subordinated Serial Preferred (Cumulative)									
$2.30 Series 1	64,368	**37,123**	37,233	37,233	**$1,485**	$1,489	$1,489	.83	1
$4.75 Series 3	40,449	**19,469**	19,632	19,632	**1,947**	1,963	1,963	2.11	2
$4.75 Series 4	53,764	**16,412**	16,412	16,412	**1,641**	1,641	1,641	1.52	1
Series 6	400,000	**0**	0	0	**0**	0	0		1
$1.50 Subordinated Cumulative Preferred	5,000,000	**30,017**	30,017	30,017	**901**	901	901		
		103,021	103,294	103,294	**5,974**	5,994	5,994		
Employees' Subordinated Convertible Preferred	5,000,000	**80,313**	80,313	80,313	**2,409**	2,410	2,410	1.00*	1
Stated Value of Issued Shares					**8,383**	8,404	8,404		
Employees' Preferred Stock Purchase Accounts					**(439)**	(446)	(461)		
Total Non-Redeemable Preferred Stock					**$7,944**	$7,958	$7,943		

**Also convertible into one share of $1.50 Subordinated Cumulative Preferred Stock.*

Note 11
Shareholders' Equity Continued
Preferred Stock Transactions

Thousands	Non-Redeemable Preferred Stock	Non-Redeemable Employees' Preferred Stock	Employees' Preferred Stock Purchase Accounts	Total Non-Redeemable Preferred Stock
Balance January 31, 1994	$5,993	$2,544	$(473)	$8,064
Conversion of employees' preferred into $1.50 preferred	3	(3)	0	0
Conversion of employees' preferred into common	0	(122)	0	(122)
Other	(2)	(9)	12	1
Balance January 31, 1995	5,994	2,410	(461)	7,943
Other	0	0	15	15
Balance January 31, 1996	5,994	2,410	(446)	7,958
Other	(20)	(1)	7	(14)
Balance February 1, 1997	$5,974	$2,409	$(439)	$7,944

Subordinated Serial Preferred Stock (Cumulative):
Stated and redemption values for Series 1 are $40 per share and for Series 3 and 4 are each $100 per share; liquidation value for Series 1—$40 per share plus accumulated dividends and for Series 3 and 4—$100 per share plus accumulated dividends.

The Company's shareholders' rights plan grants to common shareholders the right to purchase, at a specified exercise price, a fraction of a share of subordinated serial preferred stock, Series 6, in the event of an acquisition of, or an announced tender offer for, 10% or more of the Company's outstanding common stock. Upon any such event, each right also entitles the holder (other than the person making such acquisition or tender offer) to purchase, at the exercise price, shares of common stock having a market value of twice the exercise price. In the event the Company is acquired in a transaction in which the Company is not the surviving corporation, each right would entitle its holder to purchase, at the exercise price, shares of the acquiring company having a market value of twice the exercise price. The rights expire in August 2000, are redeemable under certain circumstances for $.01 per right and are subject to exchange for one share of common stock or an equivalent amount of preferred stock at any time after the event which makes the rights exercisable and before a majority of the Company's common stock is acquired.

$1.50 Subordinated Cumulative Preferred Stock:
Stated and liquidation values and redemption price—$30 per share.

Employees' Subordinated Convertible Preferred Stock:
Stated and liquidation values—$30 per share.

Note 11

Shareholders' Equity Continued

Common Stock:

Common stock-$1 par value. Authorized: 40,000,000 shares; issued: February 1, 1997—25,194,504 shares; January 31, 1996—24,844,036 shares. There were 488,464 shares held in treasury at February 1, 1997 and January 31, 1996. Each outstanding share is entitled to one vote. At February 1, 1997, common shares were reserved as follows: 177,101 shares for conversion of preferred stock; 1,366,388 shares for the 1987 Stock Option Plan; 1,100,000 shares for the 1996 Stock Option Plan; 200,000 shares for executive stock options; 120,434 shares for the Restricted Stock Plan for Directors; and 756,919 shares for the Genesco Employee Stock Purchase Plan.

Restrictions on Dividends and Redemptions of Capital Stock:

The Company's charter provides that no dividends may be paid and no shares of capital stock acquired for value if there are dividend or redemption arrearages on any senior or equally ranked stock. Exchanges of subordinated serial preferred stock for common stock or other stock junior to such exchanged stock are permitted.

The February 1, 1993 indenture, under which the Company's 10¾% senior notes due 2003 were issued, limits the payment of dividends and redemptions of capital stock to the sum of $10 million plus (i) 50% of Consolidated Net Income (as defined) after April 30, 1993 and (ii) the aggregate Net Proceeds (as defined) received from the issuance or sale of capital stock after February 1, 1993. At February 1, 1997, the Company was in a deficit position of $91.3 million in its abiliry to pay dividends.

Due to the above restrictions, the Company suspended dividends in the fourth quarter of Fiscal 1994 and now has cumulative dividend arrearages in the amount of $277,494 for Series 1, $300,553 for Series 3, $253,360 for Series 4, and $146,333 for $1.50 Subordinated Cumulative Preferred Stock.

Changes in the Shares of the Company's Capital Stock

	Common Stock	Non-Redeemable Preferred Stock	Employees' Preferred Stock
Issued at January 31, 1994	24,792,641	103,244	84,791
Other	39,486	50	(4,478)
Issued at January 31, 1995	24,832,127	103,294	80,313
Exercise of options	7,625	0	0
Other	4,284	0	0
Issued at January 31, 1996	24,844,036	103,294	80,313
Exercise of options	186,712	0	0
Issue shares—Employee Stock Purchase Plan	161,329	0	0
Other	2,427	(273)	0
Issued at February 1, 1997	25,194,504	103,021	80,313
Less treasury shares	488,464	0	0
Outstanding at February 1, 1997	24,706,040	103,021	80,313

Note 12

Income Taxes

Income tax expense (benefit) is comprised of the following:

In Thousands	1997	1996	1995
Current			
U.S. federal	$ (70)	$ 0	$(1,693)
Foreign	41	25	741
State	22	0	10
Deferred			
U.S. federal	(415)	0	1,699
Foreign	0	0	0
State	0	0	0
Total Income Tax Expense (Benefit)	$(422)	$25	$ 757

Deferred tax assets and liabilities are comprised of the following:

In Thousands	February 1, 1997	January 31, 1996
Pensions	$ (1,049)	$ (885)
Other	(219)	(346)
Gross deferred tax liabilities	(1,268)	(1,231)
Net operating loss carryforwards	18,433	25,399
Net capital loss carryforwards	8,013	11,180
Provisions for discontinued operations and restructurings	7,685	8,437
Inventory valuation	1,685	1,743
Expense accruals	7,836	6,581
Allowances for bad debts and notes	1,802	1,711
Uniform capitalization costs	2,206	1,937
Depreciation	2,106	2,105
Pensions	201	692
Leases	126	176
Other	763	2,047
Tax credit carryforwards	2,649	1,200
Gross deferred tax assets	53,505	63,208
Deferred tax asset valuation allowance	(51,822)	(61,977)
Net Deferred Tax Assets	$ 415	$ 0

The Company has net operating loss carryfowards available to offset future U.S. taxable income of approximately $47.9 million expiring in 2010 and 2011. The Company also has capital loss carryforwards available to offset future U.S. capital gains of approximately $20.8 million expiring in 2001.

Note 12

Income Taxes Continued

Reconciliation of the United States federal statutory rate to the Company's effective tax rate is as follows:

	1997	1996	1995
U. S. federal statutory rate of tax	**34.00%**	34.00%	(34.00%)
State taxes (net of federal tax benefit)	**4.50**	4.50	0
Deferred tax valuation allowance	**(38.50)**	(38.50)	0
Operating losses with no current tax benefit	**0**	0	34.00
Other	**(2.9)**	.01	0
Effective Tax Rate	**(2.9%)**	.01%	.00%

Note 13

Employee Retirement Benefits

Retirement Plan

The Company sponsors a non-contributory, defined benefit pension plan. Effective January 1, 1996, the Company amended the plan to change the pension benefit formula to a cash balance formula from the existing benefit calculation based upon years of service and final average pay. The benefits accrued under the old formula were frozen as of December 31, 1995. Upon retirement, the participant will receive this accrued benefit payable as an annuity. In addition, the participant will receive as a lump sum (or annuity if desired) the amount credited to their cash balance account under the new formula.

Under the amended plan, beginning January 1, 1996, the Company credits each participants' account annually with an amount equal to 4% of the participant's compensation plus 4% of the participant's compensation in excess of the Social Security taxable wage base. Beginning December 31, 1996 and annually thereafter, the account balance of each active participant will be credited with 7% interest calculated on the sum of the balance as of the beginning of the plan year and 50% of the amounts credited to the account, other than interest, for the plan year. The account balance of each participant who is inactive will be credited with interest at the lesser of 7% or the 30 year Treasury interest rate.

Pension Expense

In Thousands	1997	1996	1995
Service cost of benefits earned during the year	**$ 1,490**	$ 1,914	$ 2,309
Interest on projected benefit obligation	**6,437**	6,621	6,430
Actual return on plan assets	**(12,505)**	(12,522)	(933)
Deferral of current period asset gains (losses)	**6,601**	7,089	(4,256)
Amortization of prior service cost	**(146)**	388	388
Amortization of net loss	**1,257**	171	1,385
Amortization of transition obligation	**983**	983	983
Total Pension Expense	**$ 4,117**	$ 4,644	$ 6,306

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nployee Retirement Benefits Continued

ctuarial Assumptions

	1997	1996
eighted average discount rate	7.50%	7.00%
lary progression rate	5.00%	5.00%
pected long-term rate of return on plan assets	9.50%	9.50%

The weighted average discount rate used to measure the benefit obligation increased from 7.00% to 7.50% from scal 1996 to Fiscal 1997. The increase in the rate decreased the accumulated benefit obligation by $4.4 million and creased the projected benefit obligation by $5.4 million. The weighted average discount rate used to measure the nefit obligation decreased from 8.50% to 7.00% from Fiscal 1995 to Fiscal 1996. The decrease in the rate increased e accumulated benefit obligation by $12.1 million and increased the projected benefit obligation by $15.7 million.

The following table sets forth the funded status of the plan as of the measurement date (December 31) for the spective fiscal year:

nded Status

Thousands	1997	1996
ctuarial present value of benefit obligations:		
Vested benefit obligation	$82,534	$83,833
Non-vested benefit obligation	1,309	1,242
Accumulated benefit obligation	$83,843	$85,075
ojected benefit obligation for services rendered to date	$91,350	$99,058
an assets at fair value, primarily cash equivalents, common stock, notes and real estate	81,077	68,550
ojected Benefit Obligation in Excess of Plan Assets	$10,273	$30,508

At February 1, 1997 and January 31, 1996, there were no Company related assets in the plan. The pension plan ets are invested primarily in common stocks, mutual funds, domestic bond funds and cash equivalent securities.

lance Sheet Effect

SFAS No. 87 requires the Company to recognize a pension liability ($2.8 million for 1997 and $16.5 million for 96) equal to the amount by which the actuarial present value of the accumulated benefit obligation ($83.8 million 1997 and $85.1 million for 1996) exceeds the fair value of the retirement plan's assets ($81.1 million for 1997 and 8.6 million for 1996). A corresponding amount is recognized as an intangible asset to the extent of the unamortized or service cost and unamortized transition obligation. Any excess of the pension liability above the intangible nsion asset is recorded as a separate component and reduction of shareholders' equity. In 1997, this resulted in the cording of an intangible asset of $4.8 million and a minimum pension liability of zero in shareholders' equity. In the or year, an intangible asset of $8.1 million and a reduction to shareholders' equity of $8.2 million was recorded in e Company's balance sheet. The decrease in the charge to shareholders' equity from $8.2 million in Fiscal 1996 to $0 Fiscal 1997 results from a higher than expected return on plan assets and the increase in the weighted average count rate.

Note 13

Employee Retirement Benefits Continued

A reconciliation of the plan's funded status to amounts recognized in the Company's balance sheet follows:

In Thousands	1997	1996
Projected benefit obligation in excess of plan assets	$(10,273)	$(30,508)
Unamortized transition obligation	4,914	5,897
Unrecognized net actuarial losses	9,060	22,227
Unrecognized prior service cost	(1,717)	2,154
Prepaid (Accrued) pension cost	1,984	(230)
Amount reflected as an intangible asset*	(4,750)	(8,051)
Amount reflected as minimum pension liability adjustment**	0	(8,244)
Amount Reflected as Pension Liability* **	$ (2,766)	$(16,525)

** Included in other non-current assets in the balance sheet.*
*** Included as a component of shareholders' equity in the balance sheet.*
**** Included in other long-term liabilities in the balance sheet.*

Section 401(k) Savings Plan

The Company has a Section 401(k) Savings Plan available to employees who have completed one full year of service and are age 21 or older.

Concurrent with the January 1, 1996 amendment to the pension plan (discussed previously), the Company amended the 401(k) savings plan to make matching contributions equal to 50% of each employee's contribution of up to 5% of salary. Matching funds vest after five years of service with the Company. Years of service earned prior to the adoption of this change contribute toward the vesting requirement. For Fiscal 1997, the contribution expense to the Company for the matching program was approximately $1.1 million.

Note 14

Other Benefit Plans

Prior to Fiscal 1996, the Company contributed to a multiemployer pension plan applicable to all hourly-paid employees of its tailored clothing division covered by collective bargaining agreements. As a result of the Company's decision to liquidate The Greif Companies men's tailored clothing business, the Company provided for its estimated union pension withdrawal liability (see Note 2). Pension costs and amounts contributed to the plan during Fiscal 1995 were $1.8 million.

The Company provides health care benefits for early retirees and life insurance benefits for certain retirees not covered by collective bargaining agreements. Under the health care plan, early retirees are eligible for limited benefits until age 65. Employees who meet certain requirements are eligible for life insurance benefits upon retirement. The Company accrues such benefits during the period in which the employee renders service.

Note 14

Other Benefit Plans Continued

Postretirement benefit expense was $258,000, $256,000 and $217,000 for Fiscal 1997, 1996 and 1995, respectively. The components of postretirement benefit expense follow:

In Thousands	**1997**	1996	1995
Service cost of benefits earned during the year	**$ 83**	$ 64	$ 70
Interest cost on accumulated postretirement benefits	**175**	192	147
Net Periodic Postretirement Benefit Cost	**$258**	$256	$217

The funded status of the plan and amounts recognized in the financial statements at February 1, 1997 and January 31, 1996 were as follows:

In Thousands	**1997**	1996
Postretirement benefit liability at beginning of year	**$2,693**	$1,929
Net periodic postretirement benefit cost	**258**	256
Cash expenditures for benefits	**(771)**	(162)
Loss due to actual experience	**475**	376
Increase (decrease) in liability due to change in discount rate	**(111)**	294
Postretirement benefit liability	**2,544**	2,693
Unrecognized net loss	**(653)**	(289)
Postretirement Benefit Liability Recognized in Financial Statements	**$1,891**	$2,404

The weighted average discount rate used to determine the APBO at January 31, 1996 was 7% and 7.5% at February 1, 1997. The increase in the rate resulted in an unrecognized gain of $111,000. The weighted average discount rate decreased from 8.5% to 7.0% resulting in an unrecognized loss of $294,000 in Fiscal 1996. The APBO was determined using an assumed annual increase in the health care cost trend rate of 9.75% for Fiscal 1997. The trend rate is assumed to decrease gradually to 5.0% by Fiscal 2013. A one percentage point increase in the assumed health care cost trend rate would increase the APBO by approximately $200,000 and increase the aggregate of the service and interest cost components of net periodic postretirement benefit expense for the fiscal year by approximately $27,000.

Note 15

Stock Option Plans

The Company's stock-based compensation plans, as of February 1, 1997, are described below. The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized other than for its restricted stock options. The compensation cost that has been charged against income for its restricted plans was $980,000 for 1997. The compensation cost that has been charged against shareholders' equity for its directors' restricted stock plan was $35,000 and $30,000 for 1997 and 1996, respectively. Had compensation cost for all of the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the methodology prescribed by FAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1997	1996
Net Income	As reported	**$17,104**	$10,071
	Pro forma	**17,094**	9,981
Primary EPS	As reported	**$ 0.66**	$ 0.40
	Pro forma	**$ 0.66**	$ 0.39

Fixed Stock Options

The Company has three fixed option plans. Under the 1987 Stock Option Plan, the Company may grant options to its management personnel for up to 2.2 million shares of common stock. Under the 1996 Stock Incentive Plan, the Company may grant options to its officers and other key employees of and consultants to the Company for up to 1.2 million shares of common stock, which includes 100,000 shares reserved for issuance to outside directors. Under both plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options granted under both plans vest 25% at the end of each year with the exception of shares granted February 20, 1995 which vest 20% at the end of each year and the 100,000 shares granted to the chief executive officer under the 1987 Plan which vested after one year.

With regard to the 100,000 shares reserved for issuance to outside directors, an automatic grant of restricted stock will be given to outside directors on the date of the annual meeting of shareholders at which an outside director is first elected and on the date of every third annual meeting of shareholders of the Company thereafter. The outside director restricted stock shall vest with respect to one-third of the shares each year. Once the shares have vested, the director is restricted from selling, transferring, pledging or assigning the shares for an additional two years. There were 1,993 shares of restricted stock issued to directors for Fiscal 1997.

Under the 1996 Stock Incentive Plan, shares of restricted stock may be issued either alone, in addition to or in tandem with other awards granted under the Plan and/or cash awards made outside the Plan. To encourage stock ownership by key management employees, the Company has instituted a program allowing the chief executive officer, eight other executive officers and two high-level operating division employees to elect to receive part or all of their target awards under the Fiscal 1997 plan in the form of nonqualified stock options. The options were granted March 15, 1996. As of the grant date, the participants were permitted to elect to relinquish irrevocably all or a portion of the target award under the plan in exchange for a ten-year option to purchase shares of common stock at the closing price of the stock on the grant date. The option is to become exercisable one year from the date on which entitlement to the award under the plan fot Fiscal 1997 is determined by the Company. Compensation cost charged against income for these options was $873,000 for Fiscal 1997.

Note 15

Stock Option Plans Continued

The third fixed option plan is the executive stock option plan which granted 100,000 shates to the chief executive officer. The exercise price of these shates is equal to the market ptice of the Company's stock on the date of grant, the maximum term is 10 years and the options vested after six months.

The fair value of each option granted in the fixed option plans described above is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1996 and 1997, respectively: expected volatility of 48 and 50 percent; risk-free intetest rates of 5.9 and 6.1 percent; and expected lives of six years for all plans.

A summary of the status of the Company's fixed stock option plans as of February 1, 1997 and January 31, 1996 and 1995 and changes during the years ending on those dates is presented below:

	1997		1996		1995	
Fixed Options	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Avetage Exercise Price	Shares (000)	Weighted-Average Exetcise Price
Outstanding at beginning of year	1,525,150	$3.35	1,431,475	$3.31	1,284,075	$6.35
Granted	1,346,883	6.48	245,000	3.47	1,191,875	2.36
Exercised	(186,712)	3.44	(7,625)	2.91	(1,875)	3.38
Forfeited	(69,150)	3.24	(143,700)	3.14	(1,042,600)	5.96
Outstanding at end of year	2,616,171	4.96	1,525,150	3.35	1,431,475	3.31
Options exercisable at year-end	970,571		784,772		425,225	
Weighted-average fair value of options granted during the year	$3.58		$1.89		—	

The following table summarizes information about fixed stock options outstanding at February 1, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 2/1/97	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 2/1/97	Weighted-Average Exetcise Price
$1.875 - 2.75	825,038	7.9 yeats	$ 2.25	540,196	$2.32
3.375 - 5.00	1,218,133	8.6	4.54	260,000	3.80
5.50 - 7.75	128,500	6.2	7.07	70,375	6.87
9.00 - 11.00	444,500	8.9	10.55	100,000	9.00
$1.875 - 11.00	2,616,171	6.7	4.96	970,571	3.73

Note 15

Stock Option Plans Continued

Restricted Stock Options

On January 10, 1997, 200,000 shares of restricted stock with a zero exercise price were granted to the chairman under the 1996 Stock Incentive Plan. The stock price at the date of grant was $9 per share. The restrictions would lapse for one third of the shares on January 31, 1998 if the chairman is employed by the Company on that date. The restrictions would lapse for another one third of the shares on January 31, 1999 if (1) the chairman remains on the board of the Company and serves as chairman or in such other capacity as the board may request through that date and (2) the Company's common stock trades at or above $12.50 per share for 20 consecutive trading days during Fiscal 1999. The restrictions would lapse for the last one third of the shares on January 31, 2000 if (1) the chairman remains on the board of the Company and serves as chairman or in such other capacity as the board may request through that date and (2) the Company's common stock trades at or above $15.00 per share for 20 consecutive trading days during Fiscal 2000. Compensation cost charged against income for these options was $107,000 in Fiscal 1997.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, the Company is authorized to issue up to 1.0 million shares of common stock to those full-time employees whose total annual base salary is less than $100,000. Under the terms of the Plan, employees can choose each year to have up to 15 percent of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the stock is 85 percent of the closing market price of the stock on either the exercise date or the grant date, whichever is less. Approximately 15 percent of eligible employees have participated in the Plan in the last 2 years. Under the Plan, the Company sold 4,284 shares and 161,329 shares to employees in 1996 and 1997, respectively. Compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black-Scholes model with the following assumptions for 1996 and 1997, respectively: an expected life of 1 year for both years; expected volatility of 68 and 52 percent; and risk-free interest rates of 5.7 percent for both years. The weighted-average fair value of those purchase rights granted in 1996 and 1997 was $1.73 and $3.26, respectively.

Stock Purchase Plans

Stock purchase accounts arising out of sales to employees prior to 1972 under certain employee stock purchase plans amounted to $448,000 and $454,000 at February 1, 1997 and January 31, 1996, respectively, and were secured at February 1, 1997, by 21,112 employees' preferred shares and 325 common shares. Payments on stock purchase accounts under the stock purchase plans have been indefinitely deferred. No further sales under these plans are contemplated.

e 16

gal Proceedings

w York State Environmental Proceedings

The Company is a defendant in two separate civil actions filed by the State of New York; one against the City of oversville, New York, and 33 other private defendants and the other against the City of Johnstown, New York, and other private defendants. In addition, third party complaints and cross claims have been filed against numerous ier entities, including the Company, in both actions. These actions arise out of the alleged disposal of certain zardous material directly or indirectly in municipal landfills. The complaints allege that the defendants, together with ier contributors to the municipal landfills, are liable under a federal environmental statute and certain common law ories for the costs of investigating and performing remedial actions required to be taken with respect to the landfills d damages to the natural resources.

In March 1997, the Company accepted an offer to settle the Johnstown action for a payment of $31,000 and is now aiting entry of an acceptable consent order and dismissal of that action. The Company remains a defendant in the oversville action. The environmental authorities have issued decisions selecting plans of remediation with respect to e Gloversville site with a total estimated cost of approximately $10.0 million.

The Company has filed answers to the complaint in the Gloversville case denying liability and asserting numerous fenses. Because of uncertainties related to the ability or willingness of the other defendants, including the unicipalities involved, to pay a portion of future remediation costs, the availability of State funding to pay a portion future remediation costs, the insurance coverage available to the various defendants, the applicability of joint and veral liability and the basis for contribution claims among the defendants, management is presently unable to predict ie outcome or to estimate the extent of liability the Company may incur with respect to the Gloversville action.

Note 16

Legal Proceedings Continued

The Company has received notice from the New York State Department of Environmental Conservation (the "Department") that it deems remedial action to be necessary with respect to certain contaminants in the vicinity of a knitting mill operated by a former subsidiary of the Company from 1965 to 1969, and that it considers the Company a potentially responsible party. The Department and the Company have discussed a consent order whereby the Company would assume responsibility for conducting a remedial investigation and feasibility study ("RIFS") and implementing an interim remediation measure with regard to the site, without admitting liability or accepting responsibility for any future remediation of the site. The Company believes that it has adequately reserved for the costs of conducting the RIFS and implementing the interim remedial measure contemplated by the proposed consent order, but there is no assurance that it will be able to enter into an acceptable consent order along the lines proposed, or that such a consent order would ultimately resolve the matter. The owner of the site has advised the Company that it intends to hold the Company responsible for any required remediation or other damages incident to the contamination. The Company has not ascertained what responsibility, if any, it has for any contamination in connection with the facility or what other parties may be liable in that connection and is unable to predict whether its liability, if any, will have a material effect on its financial condition or results of operations.

Whitehall Environmental Sampling

The Michigan Department of Environmental Quality ("MDEQ") has performed sampling and analysis of soil, sediments, surface water, groundwater and waste management areas at the Company's Volunteer Leather Company facility in Whitehall, Michigan. MDEQ advised the Company that it would review the results of the analysis for possible referral to the EPA for action under the Comprehensive Environmental Response Compensation and Liability Act. However, the Company is cooperating with MDEQ and has been advised by MDEQ that no EPA referral is presently contemplated. Neither MDEQ nor the EPA has threatened or commenced any enforcement action. In response to the testing data, the Company submitted and MDEQ approved a work plan, pursuant to which a hydrogeological study was completed and submitted to MDEQ in March 1996. Additional studies regarding wastes on-site, groundwater and adjoining lake sediments have been performed and will serve as a basis for the Company's remedial action plan for the site. The Company is presently unable to determine whether the implementation of the plan will have a material effect on its financial condition or results of operations.

Note 16

Legal Proceedings Continued

Preferred Shareholder Action

On January 7, 1993, 23 former holders of the Company's series 2, 3 and 4 subordinated serial preferred stock filed a civil action against the Company and certain officers in the United States District Court for the Southern District of New York. The plaintiffs allege that the defendants misrepresented and failed to disclose material facts to representatives of the plaintiffs in connection with exchange offers which were made by the Company to the plaintiffs and other holders of the Company's series 1, 2, 3 and 4 subordinated serial preferred stock from June 23, 1988 to August 1, 1988. The plaintiffs contend that had they been aware of the misrepresentations and omissions, they would not have agreed to exchange their shares pursuant to the exchange offers. The plaintiffs allege breach of fiduciary duty and fraudulent and negligent misrepresentations and seek damages in excess of $10 million, costs, attorneys' fees, interest and punitive damages in an unspecified amount.

By order dated December 2, 1993, the U.S. District Court denied a motion for judgment on the pleadings filed on behalf of all defendants. On July 6, 1994, the court denied a motion for partial summary judgment filed on behalf of the plaintiffs. On September 6, 1996, the court granted the defendants' motion for summary judgment regarding certain alleged misrepresentations by one of the Company's officers and the plaintiffs' motion regarding the existence and breach of fiduciary duties owed by the Company to the plaintiffs. The court's order stated that the plaintiffs must show that the breach caused damages to be entitled to a recovery on that count. It denied the defendants' and plaintiffs' motions for summary judgment in other respects.

In April 1997, the parties to the litigation entered into a settlement agreement providing for the issuance of shares of the Company's common stock to the plaintiffs in exchange for dismissal of the lawsuit and the execution of mutual general releases by the parties. In addition to a cash payment which the Company's directors and officers liability insurance carrier has agreed to contribute to the settlement, the Company expects to issue shares of stock sufficient to yield net proceeds of $6.7 million to the plaintiffs in a block trade to occur immediately upon the issuance. The issuance of shares constitutes an adjustment to the 1988 transaction and will not result in a charge to earnings. The settlement is contingent on approval of the fairness of its terms and conditions by the trial court and approval of the listing of the shares on the New York Stock Exchange prior to June 25, 1997.

Texas Interference Action

On October 6, 1995, a prior holder of a license to manufacture and market western boots and other products under a trademark now licensed to the Company filed an action in the District Court of Dallas County, Texas against the Company and a contract manufacturer alleging tortious interference with a business relationship, breach of contract, tortious interference with a contract, breach of a confidential relationship and civil conspiracy based on the Company's entry into the license. The Company filed an answer denying all the material allegations of the plaintiff's complaint. The Company is unable to predict whether the outcome of the litigation will have a material effect on its financial condition or results of operations.

Note 17

Business Segment Information

In Thousands	1997	1996	1995
Sales to Unaffiliated Customers:			
Footwear (shoes and accessories):			
Retail	**$283,546**	$243,303	$234,448
Wholesale and manufacturing	**177,802**	191,272	228,453
Total Sales	**$461,348**	$434,575	$462,901
Pretax Earnings (Loss):			
Footwear (shoes and accessories):			
Retail	**$ 26,519**	$ 17,881 [2]	$ 16,925 [4]
% of applicable sales	**9.4%**	7.3%	7.2%
Wholesale and manufacturing	**8,108** [1]	(1,254) [3]	(12,105) [4]
% of applicable sales	**4.6%**	(0.7%)	(5.3%)
Operating income	**34,627**	16,627	4,820
% of total sales	**7.5%**	3.8%	1.0%
Corporate expenses:			
Interest expense	**(8,741)**	(9,645)	(11,955)
Other corporate expenses	**(9,204)**	(11,238)	(15,522) [4]
Gain on divestiture	**0**	0	4,900
Total Pretax Earnings (Loss)	**$ 16,682**	$ (4,256)	$ (17,757)
% of total sales	**3.6%**	(1.0%)	(3.8%)

[1] *Includes a restructuring charge in Fiscal 1997 of $1.7 million.*
[2] *Includes an asset impairment loss of $978,000.*
[3] *Includes a restructuring charge in Fiscal 1996 of $14.1 million.*
[4] *Includes a restructuring charge in Fiscal 1995 as follows: Footwear Retail $236,000, Footwear Wholesale and Manufacturing $20.6 million and Corporate $1.3 million.*

: 17
siness Segment Information Continued

Thousands	1997	1996	1995
sets:			
otwear:			
Retail	$ 78,721	$ 67,482	$ 69,287
Wholesale and manufacturing	79,424	74,290	115,601
ɔtal footwear	158,145	141,772	184,888
ien's apparel	0	0	28,984
orporate assets	59,509	56,034	30,006
otal Assets	$217,654	$197,806	$243,878
)epreciation and Amortization:			
ootwear:			
Retail	$ 4,811	$ 4,755	$ 4,735
Wholesale and manufacturing	1,866	1,691	2,759
Total footwear	6,677	6,446	7,494
Men's apparel	0	0	1,305
Corporate	1,070	908	455
Total Depreciation and Amortization	$ 7,747	$ 7,354	$ 9,254
Additions to Plant, Equipment and Capital Leases:			
Footwear:			
Retail	$ 11,151	$ 4,364	$ 3,181
Wholesale and manufacturing	2,948	2,514	2,129
Total footwear	14,099	6,878	5,310
Men's apparel	0	9	198
Corporate	541	1,677	242
Total Additions to Plant, Equipment and Capital Leases	$ 14,640	$ 8,564	$ 5,750

Note 18

Quarterly Financial Information (Unaudited)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Fiscal Year	
In Thousands	**1997**	1996	**1997**	1996	**1997**	1996	**1997**	1996	**1997**	1996
Net sales	**$100,219**	$93,225	**$102,955**	$109,600	**$124,109**	$111,994	**$134,065**	$119,756	**$461,348**	$434,575
Gross margin	**40,588**	35,537	**40,813**	42,499	**51,188**	45,292	**54,486**	49,504	**187,075**	172,832
Pretax earnings (loss)	**501**	(13,322)[1]	**2,101**	(1,179)[3]	**5,993**[5]	4,238[6]	**8,087**	6,007[7]	**16,682**	(4,256)
Earnings (loss) before discontinued operations	**966**	(13,331)	**2,073**	(1,185)	**5,903**	4,231	**8,162**	6,004	**17,104**	(4,281)
Net earnings (loss)	**966**	(678)[2]	**2,073**	514[4]	**5,903**	4,231	**8,162**	6,004	**17,104**	10,071
Earnings (loss) per common share:										
Before discontinued operations	**.04**	(.55)	**.08**	(.05)	**.23**	.17	**.31**	.24	**.66**	(.19)
Net earnings (loss)	**.04**	(.03)	**.08**	.02	**.23**	.17	**.31**	.24	**.66**	.40

[1] *Includes a restructuring charge of $14.1 million (see Note 2).*
[2] *Includes excess provision for discontinued operations of $12.7 million (see Note 2).*
[3] *Includes a restructuring charge of $2.2 million (see Note 2).*
[4] *Includes excess provision for discontinued operations of $1.7 million (see Note 2).*
[5] *Includes a restructuring charge of $1.7 million (see Note 2).*
[6] *Includes a restructuring credit of $1.2 million and a $978,000 charge for impaired assets (see Note 2).*
[7] *Includes a restructuring credit of $1.0 million (see Note 2).*

Board of Directors

David M. Chamberlain
Chairman –
Genesco Inc.
San Francisco, California
Member of the nominating committee

W. Lipscomb Davis, Jr.
Partner –
Hillsboro Enterprises
Nashville, Tennessee
Chairman of the nominating committee, member of the audit committee

John Diebold
Chairman –
The JD Consulting Group
Bedford Hills, New York
Member of the compensation and nominating committees

Harry D. Garber
Retired Chairman –
Genesco Inc.
Garden City, New York
Chairman of the finance committee, member of the audit committee

Joel C. Gordon
Chairman –
Cardiology Partners of America
Nashville, Tennessee
Chairman of the audit committee and member of the compensation committee

Ben T. Harris
President and
Chief Executive Officer –
Genesco Inc.

Kathleen Mason
President –
The HomeGoods division
TJX Companies, Inc.
Framingham, Massachusetts
Member of the audit and finance committees

William A. Williamson, Jr.
Chairman –
Kowaliga Capital
Montgomery, Alabama
Chairman of the compensation committee and member of the finance committee

William S. Wire II
Retired Chairman –
Genesco Inc.
Nashville, Tennessee
Member of the nominating and finance committees

Gary M. Witkin
President and
Chief Executive Officer –
Service Merchandise, Inc.
Nashville, Tennessee
Member of the compensation committee

Corporate Officers

David M. Chamberlain
Chairman –
8 years with Genesco

Ben T. Harris
President and
Chief Executive Officer –
30 years with Genesco

T. Neale Attenborough
Executive Vice President –
Operations
3 years with Genesco

James S. Gulmi
Senior Vice President –
Finance and
Chief Financial Officer
25 years with Genesco

Fowler H. Low
Senior Vice President –
34 years with Genesco

James W. Boscamp
Senior Vice President –
5 years with Genesco

Steven E. Little
Vice President –
Administration
32 years with Genesco

Roger G. Sisson
Secretary and General Counsel –
3 years with Genesco

Matthew N. Johnson
Treasurer –
4 years with Genesco

Paul D. Williams
Chief Accounting Officer –
20 years with Genesco

Annual Meeting of Shareholders

The annual meeting of shareholders will be held Wednesday, June 25, 1997 at 10:00 a.m. CDT, at the corporate headquarters in Genesco Park, Nashville, Tennessee.

Corporate Headquarters

Genesco Park
1415 Murfreesboro Road
P.O. Box 731
Nashville, Tennessee 37202-0731

Independent Accountants

Price Waterhouse LLP
4400 Harding Road
Nashville, Tennessee 37205

Transfer Agent and Registrar

Communications concerning stock transfer, preferred stock dividends, consolidating accounts, change of address and lost or stolen stock certificates should be directed to the transfer agent. When corresponding with the transfer agent, shareholders should state the exact name(s) in which the stock is registered and certificate number, as well as old and new information about the account.

First Chicago Trust Company of New York
Stock Transfer Department
P.O. Box 2500
Jersey City, NJ 07303-2500
Telephone: (201) 324-0313
E-Mail: FCTC@em.fcnbd.com
Website Address: http:/www.fctc.com
Telephone number for the hearing impaired:
TDD: (201) 222-4955
Shareholder representatives are available:
Monday through Friday
8:30 a.m. to 7:00 p.m. Eastern Standard Time
Automated telephone service:
8:00 a.m. to 10:00 p.m.

Investor Relations

Security analysts, portfolio managers or other investment community representatives should contact:

James S. Gulmi, Senior Vice President – Finance and Chief Financial Officer
Genesco Park, Suite 490 • P.O. Box 731
Nashville, Tennessee 37202-0731
(615) 367-8325

Form 10-K

Each year Genesco files with the Securities and Exchange Commission a Form 10-K which contains more detailed information. Any shareholder who would like to receive, without charge, a single copy (without exhibits), or who would like to receive extra copies of any Genesco shareholder publication should send a request to:

Claire S. McCall, Director, Corporate Relations
Genesco Park, Suite 490 • P.O. Box 731
Nashville, Tennessee 37202-0731
(615) 367-8281

Common Stock Listing

New York Stock Exchange, Chicago Stock Exchange
Symbol: GCO

Shareholder Information Line

In 1995, Genesco established a toll-free shareholder information line to provide shareholders with timely information about the Company. Shareholders can obtain the latest financial releases and news updates, as soon as they are available, by dialing 1-800-6400-GCO (1-800-640-0426).

If you wish to receive quarterly financial information during Fiscal 1998, please call the shareholder information line at 1-800-6400-GCO (1-800-640-0426).

The Company updates the list of quarterly information recipients annually and reminds shareholders to call each year if they wish to remain on the list.

Securities Information –
Common Stock, New York and Chicago Stock Exchanges

	Fiscal 1997		Fiscal 1996		Fiscal 1995	
	High	Low	High	Low	High	Low
Quarter ended April 30	6 3/4	3 3/4	4	2	4 7/8	3 5/8
Quarter ended July 31	8 1/8	5 5/8	4 1/2	3	4 1/8	2 3/4
Quarter ended October 31	10	6 5/8	4 7/8	3 3/4	3 3/8	2 1/8
Quarter ended January 31	11 1/8	8 3/8	4 1/4	2 7/8	2 3/8	1 5/8

Approximate number of common shareholders of record: 11,000

Journeys, a 118-unit retail chain located primarily in shopping malls across the United States, markets footwear for men and women ages 13-22.

Laredo Boot Company manufactures and markets popular-priced boots for men and women under the Laredo, Code West and PerformAir® labels.

Nautica Footwear designs, manufactures and markets dress casual and casual shoes, hiking boots, boys' shoes and its newly introduced Nautica Competition athletic footwear under a license from Nautica Apparel.

Dockers Footwear is the exclusive licensee of Levi Strauss & Co. for the sales, marketing and distribution of Dockers brand footwear.

Johnston & Murphy is a premier men's dress shoe brand with an increasing presence in the dress casual and casual footwear markets. Its products are distributed through fine department and specialty stores and men's shoe stores. J&M retail stores are major marketers of dress, dress casual and casual footwear for men. Including its factory stores, J&M operates in 119 retail locations across the United States.

Jarman retail stores market an assortment of casual and dress footwear in both its 143 retail shoe stores and its 85 leased departments targeted primarily to men ages 25-45.

Volunteer Leather Company is a full-service leather supplier to leading commercial footwear producers as well as the leading supplier of performance footwear leathers for the U. S. armed forces.

Larry Mahan is a premier brand in the upper-priced authentic western boot market.

GENESCO

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